

Identifying IFRS 17 implementation challenges in Hong Kong and other jurisdictions

Objective:

This memo outlines the discussions that HKICPA staff had to date with:

- a) a representative of the Hong Kong Federation of Insurers;
- b) the Asian-Oceanian Standard-Setters Group insurance working group leader;
- c) staff of the Canadian national standard-setter; and
- d) provides an update on the IFRS 17 regional workshop jointly held by the Malaysian Accounting Standards Board and the IFRS Foundation.

Background:

In a letter to all Hong Kong authorised insurers dated 4 January 2018, the Institute's Financial Reporting Standards Committee had undertaken to work closely with HKFI and with other national standard-setters around the world to closely monitor implementation developments and challenges. The purpose of doing so is to understand what challenges, if any, need to be reported back to the IASB and/or the Institute's FRSC to determine what action may be required to assist stakeholders in overcoming the challenges.

At the 10 May HKIISG meeting, members mentioned that HKFI is conducting a survey on the top challenges in implementing IFRS/HKFRS 17 for general insurers. The purpose of the survey is to analyse the potential impact on the use of IFRS/HKFRS 17 in Hong Kong. Next steps will be determined by HKFI after the results of the analysis is finalised.

HKICPA staff asked if HKFI could conduct a similar survey for life insurers, and HKICPA could ask other major markets in Asia-Oceania to conduct similar surveys with their insurance stakeholders to form a stronger voice if common challenges are experienced. HKIISG supported HKICPA staff's idea. HKICPA staff also commented that they would attend the IFRS 17 regional workshop in Malaysia.

Update on discussion with a representative of HKFI:

HKFI is currently conducting a survey on the impact of IFRS/HKFRS 17¹ for general insurers. Additionally, HKICPA staff understands that HKFI is taking steps to understand IFRS/HKFRS 17 implementation concerns from their life insurer members. Further clarity will be provided to HKICPA staff at the end of July when the steps are confirmed.

HKICPA staff action:

Given the current HKFI initiatives, HKICPA staff will not conduct additional surveys on IFRS/HKFRS 17 implementation challenges as this would duplicate HKFI's efforts and add administrative burden to insurers. HKICPA staff will continue to liaise with HKFI and take stock of their findings.

Update on discussion with the AOSSG insurance working group leader:

HKICPA staff discussed with the AOSSG insurance working group leader about conducting a similar survey. The AOSSG insurance working group leader is agreeable to understanding the top IFRS 17 implementation challenges for AOSSG jurisdictions. The preliminary thinking is to ask working group members the following questions:

- what are the top most challenging IFRS 17 requirements to implement, and why (considering costs and benefits); and also
- how insurers plan to address the challenges.

1 Adapted from Part A of the EFRAG IFRS 17 simplified case study with a focus on the impact of IFRS 17 requirements to: product trends and pricing of products; future one-off and ongoing costs; perceived impact to investors and capital providers; performance indicators and asset-liability management

However, as IFRS 17 has just been adopted in some major AOSSG jurisdictions, such as Singapore, and is in the process of endorsement in other jurisdictions like China; our discussion led to conclude that conducting such a survey would be more effective towards the end of the year (to coincide with the AOSSG annual meeting), or at the beginning of next year. This would allow more time for companies in newly adopted jurisdictions to digest the standard and to begin implementation.

HKICPA staff action:

Depending on the outcomes of HKFI's study on the impact of HKFRS 17 on general and life insurers, HKICPA staff could propose more detailed questions to a future AOSSG survey.

Update on discussion with staff of the Canadian national standard-setter:

On 5 June, HKICPA staff spoke to the lead staff member of the Accounting Standards Board of Canada. AcSB staff commented that the hot implementation topics in Canada have been: coverage units; contract boundary; premium allocation approach; reinsurance and mutual entities.

HKICPA staff also understand that the AcSB also established a local transition resource group, which meets one week before the IASB TRG meets to discuss the TRG papers, as well as any local submissions. AcSB TRG meetings are private and their meeting agendas and summaries are not publically available. AcSB staff noted that the AcSB TRG have not submitted, nor has eminent plans to submit, any papers to the IASB TRG.

Update on the IFRS 17 regional workshop in Malaysia

On 17 May, HKICPA staff attended a one day regional workshop on IFRS 17 jointly held by the MASB and IFRS Foundation. The workshop aimed at providing insights about IFRS 17 to its 267 attendees, and included high-level presentations on:

- IFRS 17 requirements by an IASB Board member;
- preparing systems and infrastructure for IFRS 17 by a CFO of a multinational insurer;
- key lessons learned from the first IFRS 17 gap analysis and impact assessment projects in Malaysia and ASEAN/APAC by a consulting firm; and
- IASB TRG meetings by an IASB Board member.

The workshop also included a panel discussion and a Q&A session. HKICPA staff understand that the central bank of Malaysia has been taking a proactive stance in pushing preparers to begin implementation of IFRS 17. There was active participation in the Q&A session, with many questions centered around the application of IFRS 17 accounting on takaful (Islamic insurance).

On 31 May, HKICPA staff also spoke to a MASB staff member regarding IFRS 17 implementation issues. The MASB staff member noted that to date, stakeholders have not directly reached out to the MASB on any IFRS 17 implementation issues. However, they are aware of some concerns in industry regarding the future IFRS 17 reporting of profits for a base contract with multiple riders, and how it would reconcile with current regulatory reporting. Lastly, the MASB staff member noted that later this year, a local transition resource group may be formed, and an impact study may be conducted by the Malaysian insurance regulator.