Paper 3 – Local Submission: Contract Boundary

Potential implementation question

1. We note in Paragraph 22 to 24 "Determining the boundary of an insurance contact" in Sept IASB TRG meeting AP08 (refer to Annex 3.1 of this paper), the IASB staff view that in accordance with paragraph 34 of IFRS 17, that an entity's substantive obligation to provide services under a contract ends at the point that the entity can terminate the contract.
2. AP08 details a situation whereby there is:
   "- An arrangement between an entity and an association or a bank (referred to as the 'group insurance policy' in this paper). Under a group insurance policy an entity provides insurance coverage to members of an association or to customers of a bank (members or customers that purchase insurance coverage are referred to as 'certificate holders' in this paper).
   - The entity has a right to terminate the group insurance policy at any time with a notice period of 90 days which, in turn, terminates the insurance coverage for all certificate holders.
   - AP08 discusses whether cash flows related to periods after the notice period of 90 days are within the boundary of an insurance contract"
   The analysis in AP08 notes that the entity's substantive obligation ends after 90 days and cash flows within the contract and boundary are those related the obligation to provide service over the period of 90 days.
3. The related TRG meeting summary observes that:
   "An entity should assess the boundary of each insurance contract. For the group insurance policies described in the submission, the entity's substantive obligation to provide services under a contract ends at the point that the entity can terminate the contract. The certificate holder's expectation that the group insurance policy will not be terminated earlier than the end of the contract term is not relevant to the assessment of the contract boundary applying paragraph 34 of IFRS 17."
4. If applying the same concepts to other general insurance products which would normally contain a termination clause, there will be a great practical implementation difficulty. We therefore would like to discuss the implementation implication on such cancellation clauses.
5. Examples of cancellation clauses is attached in Appendix A for discussion purpose.

Paragraph of HKFRS/IFRS 17 *Insurance Contracts*

6. Paragraph 34 of IFRS 17 states:
   Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). A substantive obligation to provide services ends when:
   (a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
   (b) both of the following criteria are satisfied:
   (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of

that portfolio; and

(ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

Analysis of the question

7. If applying the same concepts to other general insurance products which would normally contain a termination clause, there will be a great practical implementation difficulty.
8. We view legal contract boundary should be respected and "accounting" contract boundary should only be applied under certain scenarios, which need to be specified more clearly in the standard.