

# ASC

ACCOUNTING STANDARDS COUNCIL  
SINGAPORE

1 October 2019

Mr Hans Hoogervorst  
Chairman  
International Accounting Standards Board  
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*(By online submission)*

Dear Hans

## **RESPONSE TO EXPOSURE DRAFT ON AMENDMENTS TO IFRS 17**

The Singapore Accounting Standards Council appreciates the opportunity to comment on the Exposure Draft on *Amendments to IFRS 17* (the ED) issued by the International Accounting Standards Board (the IASB) in June 2019.

We commend the IASB's efforts in proactively supporting the implementation of IFRS 17 *Insurance Contracts* and promptly addressing implementation concerns.

On the whole, we are supportive of the proposed amendments to IFRS 17. In our view, the proposed amendments would help to address implementation concerns, without resulting in a significant loss of useful information and an undue delay in the application of IFRS 17. We recommend that the IASB should finalise the amendments to IFRS 17 expeditiously, with the aim of providing certainty to interested parties and sufficient implementation lead-time to entities affected by the amendments.

Our specific comments on the proposed amendments are provided below.

### **1. Scope exemptions for credit card and other contracts that meet specified criteria**

We note that the proposed scope exemptions may create inconsistencies and tensions within IFRS 17. For example:

- The IASB considered IFRS 9 or IFRS 15 to be more appropriate for contracts of which the price does not reflect the insurance risk associated with the individual customer. Nevertheless, for fixed-fee service contracts with such a feature, the IASB accepted a choice of either IFRS 17 or IFRS 15 because some entities issue both such contracts and other insurance contracts. It is debatable whether the IASB should prohibit a similar choice of either IFRS 17 or IFRS 9 for credit card contracts with that same

feature, resulting in arbitrary scope exemptions, only because the IASB has not been made aware of entities applying insurance contract accounting to such contracts.

- Some contracts within the scope of proposed paragraph 8A may have the feature as described in proposed paragraph 7(h), and it is unclear why contracts having that same feature are subject to different requirements. For credit card contracts that provide balance insurance, it is unclear which of the proposed paragraphs 7(h) or 8A should be applied by an issuer of such contracts.
- The proposed paragraph 7A(h) refers to the term ‘credit card contracts’, which is a specific product description. It is unclear whether the amendment would apply to other payment cards with similar clauses.

In order to avoid arbitrary scope exemptions and the resulting interaction issues, we suggest that the IASB should consider revising the scope exemptions as follows:

- (a) The scope exemptions should be described in a way that is non-product specific, and is based on clearly defined principles and criteria.
- (b) For financial contracts that meet the definition of an insurance contract and are not otherwise excluded from the scope of IFRS 17, the issuer is required to apply either IFRS 9 or IFRS 17 to such contracts, if the issuer does not reflect an assessment of the insurance risk associated with the individual customer in setting the price of the contract. Such insurance contracts may include contracts that are within the scope of the proposed paragraphs 7(h) and 8A. The issuer is required to make that choice, on an irrevocable basis, for each portfolio of insurance contracts.

We believe that our suggested approach would eliminate or reduce the inconsistency between financial contracts and fixed-fee service contracts that meet the specified criteria, and also the tension for contracts that meet both criteria of proposed paragraphs 7(h) and 8A.

Moreover, our suggested approach might not further reduce comparability between similar contracts issued by the same entity or by different entities in the same industry. If an issuer has not previously applied insurance contract accounting to such contracts, it would unlikely choose to apply IFRS 17 to such contracts. Conversely, an issuer that has previously applied insurance contract accounting might choose to apply either IFRS 9 or IFRS 17 to such contracts, similar to issuers of financial guarantee contracts applying IFRS 17.

## **2. Allocation of insurance acquisition cash flows to expected contract renewals**

We note that the proposed paragraph B35A refers to ‘insurance acquisition cash flows that are *directly attributable to a group* [emphasis added] of insurance contracts’, which differs from existing measurement requirements that specify an allocation of insurance acquisition cash flows *attributable to the portfolio* to which a contract belongs.

Based on the current drafting, an entity cannot allocate to expected contract renewals those insurance acquisition cash flows that are only directly attributable to the portfolio to which a group of insurance contracts belongs. It would impact, for example, insurance acquisition cash flows that an entity incurs when it acquires a portfolio of insurance contracts. However, IFRS 17 permits an entity to estimate fulfilment cash flows at a higher level of aggregation

than the group or portfolio, provided that the resulting fulfilment cash flows of the group comply with the requirements of the Standard.

If the current drafting indeed reflects the IASB's intention, we suggest that the IASB should explain its rationale for requiring different treatments for insurance acquisition cash flows, depending on whether they are directly attributable to the group, or whether they are allocated from cash flows directly attributable to the portfolio to which the group belongs.

### **3. Attribution of profit for insurance contract services to investment service**

The IASB concluded that the nature of the fees differs between insurance contracts without direct participation features and insurance contracts with direct participation features, even though both types of contracts provide investment service.

Questions may arise as to whether the basis for determining the quantity of benefits for investment service might be different between those two types of contracts. In the case of insurance contracts without direct participation features, for example:

- Whether the positive investment return should be determined based on the entire duration of the contract, and if so, whether profit for investment service should be attributed to periods of expected negative return. In particular, a contract may generate a negative return during the earlier periods, even if the amount repayable to the policyholder is expected to include a positive investment return over the entire duration of the contract. In some cases, the policyholder has a right to repayment in those periods of expected negative return.
- Whether the quantity of benefits should reflect: (i) the pattern of investment return; or (ii) the pattern depicting the transfer of investment-return service to the policyholder, which may be on the basis of the passage of time.

Therefore, we suggest that the IASB could analyse those questions and consider the need for clarification.

### **4. Recognition of income for reinsurance contracts held that meet specified criteria**

We consider the proposed definition of 'proportionate coverage' to be unduly restrictive. As a result, the proposed amendment would capture contracts that are not commonly used in practice, while excluding contracts with similar economic substance.

In our view, a direct link between the losses and the recovery of those losses is not necessarily limited to a fixed percentage for all claims incurred on a group of underlying contracts. There is a reasonably direct link between the recoveries and the underlying losses, if a reinsurance contract held covers a specified percentage of claims, disregarding contractually specified limit and/or retention amount. Those reinsurance contracts may include, for example, quota share reinsurance with a limit and surplus reinsurance, which are commonly viewed as a form of proportional reinsurance in the industry.

In order to accommodate the expanded scope of reinsurance contracts held, the amount recognised as income for such reinsurance contracts may be computed using an effective rate of recovery, instead of a fixed percentage of claims on the group of underlying contracts. The effective rate of recovery may be determined based on: (a) the expected recoveries from qualifying reinsurance contracts held; and (b) the expected claims on the group of underlying contracts.

Therefore, we recommend that the IASB should consider expanding the scope of reinsurance contracts held accordingly, and modifying the basis for computing income using an effective rate of recovery instead.

## **5. Extension of risk mitigation option to reinsurance contracts held**

In our view, there is an arbitrary distinction between derivatives and non-derivative financial instruments measured at fair value through profit or loss, if the risk mitigation for which an entity uses the instruments meets the specified conditions in paragraph B116 of IFRS 17.

An entity may issue insurance contracts with direct participation features, which reference to underlying items that include non-derivative financial instruments. In such cases, the entity may choose to mitigate the financial risk arising from underlying items using derivative or non-derivative financial instruments, or a combination of both, similar to entities that apply the hedge accounting requirements of IFRS 9.

Despite being used for risk mitigation, non-derivative financial instruments would create accounting mismatches in a way similar to derivatives, if the entity is required to measure those instruments at fair value through profit or loss, or designates them as measured at fair value through profit or loss to reduce accounting mismatches arising from changes in the fair value of underlying items.

In order to address the similar accounting mismatches, we suggest that the IASB should re-consider extending the risk mitigating option to non-derivative financial instruments measured at fair value through profit or loss, subject to the same conditions as those applicable to derivatives and reinsurance contracts held.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project manager Siok Mun Leong at [Leong\\_siok\\_mun@asc.gov.sg](mailto:Leong_siok_mun@asc.gov.sg).

Yours faithfully

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