



Dear Sir/Madam

### **HKFRS 17 *Insurance Contracts***

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) has completed its due process for issuing a Hong Kong standard (refer Appendix 1) and has approved HKFRS 17 *Insurance Contracts*, a word-for-word adoption of IFRS 17 issued by the International Accounting Standards Board.

The FRSC considers that HKFRS 17 is a high quality standard that will lead to companies reporting meaningful information to stakeholders compared to the extant reporting standard. The FRSC therefore believes that the new standard will improve Hong Kong insurance companies' global standing as well as maintain Hong Kong as a leading financial centre.

In accordance with our international convergence policy, HKFRS 17 has the same effective date as IFRS 17 (1 January 2021) so that all companies globally strive to apply the new standard at the same time. The FRSC considers that having a globally consistent effective date is extremely important to Hong Kong as an international finance centre. Nevertheless, after the IASB issued IFRS 17 (and before the FRSC arrived at a decision to approve HKFRS 17), the FRSC was made aware of the following:

- Concerns about the effective date of 1 January 2021, and therefore whether Hong Kong insurance companies have sufficient time to implement HKFRS 17 because of the concurrent development of new regulatory capital requirements in Hong Kong and a lack of specialist resources across Asia.
- Concerns about whether other jurisdictions that apply IFRS Standards, as issued by the IASB, will apply IFRS 17 consistently and/or on the same effective date.

The FRSC acknowledges the concerns and sees that these are important to Hong Kong companies. The FRSC considered these concerns in depth and believed that this is an isolated and unprecedented situation. At the same time, the FRSC is aware that HKFRS 17 brings about major changes to the way an insurance company currently reports and manages its information systems. In this regard, the FRSC has also been asked by a number of Hong Kong insurance companies to provide HKFRS 17 as soon as possible so that they can get started with their implementation plans. Some constituents also informed the FRSC that it is not necessary to diverge from the effective date of IFRS 17 at this point in time.

The FRSC decided that, on balance, it should approve and issue HKFRS 17 with the same effective date as IFRS 17 but will undertake an ongoing monitoring and assessment of international and Hong Kong developments. This ongoing reassessment will enable the FRSC to objectively consider how to respond to global developments and implementation challenges, including working in coordination with the IASB and other standard-setting bodies from around the world and whether it is necessary to deviate from IFRS 17, which the FRSC can do in some exceptional cases.

At recent meetings with the IASB, the FRSC communicated to the IASB the concerns mentioned above so that the IASB is also prepared for responding to these challenges. The FRSC subsequently wrote to the IASB with the same messages and recommended steps (refer Appendix 2).

I trust that you can appreciate that the FRSC has a robust standard-setting due process which has been fully complied with in reaching its decision to issue HKFRS 17. However, the FRSC's work is not yet done. The FRSC undertakes to do the following to assist companies in implementing the new standard.



*Implementation support group*

The FRSC decided to establish an implementation support group for Hong Kong stakeholders, which provides a forum to raise and discuss questions on and challenges in implementing HKFRS 17. Companies or firms that meet the membership criteria are encouraged to apply for a seat (refer Appendix 3). Two members of the IASB's Transition Resource Group (TRG) who operate in Hong Kong have undertaken to represent issues raised through this Hong Kong support group at the IASB's TRG meetings.

*Enhanced training and support*

The Institute will continue to organize technical seminars and workshops on HKFRS 17. If you would like to be informed of new HKFRS 17 training and other supporting events, please contact us. A suggested roadmap with a timeline of key milestones in relation to implementation will be made available in due course.

*Cooperation with the Insurance Authority and the Hong Kong Federation of Insurers*

The FRSC will work closely with both institutions to ensure they are well supported in understanding HKFRS 17. In particular, the HKICPA will support the IA to assist them in appreciating how it could take advantage of the new current value measure of insurance liabilities under HKFRS 17 when it develops the new regulatory capital regime for Hong Kong insurance companies. The FRSC will also work closely with HKFI to ensure that member companies are familiar with the requirements of the new standard, and to monitor implementation developments.

*Closely monitor and report global developments*

The HKICPA is fortunate to have well established connections with standard-setters around the world as it is an active member of the Asian-Oceanian Standard-Setters Group and the International Forum of Accounting Standard Setters. These groups of standard-setting bodies include those from Australia, Canada, China, Europe, Japan, Korea and South East Asia. The FRSC has been and will continue to be in contact with these standard-setters on challenges they are having locally, and work together to lobby changes to IFRS 17 and/or its effective date, if necessary. The HKICPA also works closely with the IASB who has offered to provide support to Hong Kong. The FRSC plans to leverage on the IASB's support to provide in-person investor education as well as preparer education.

If you have any questions regarding the matters raised in this letter, please do not hesitate to contact:

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Christina Ng ([christinang@hki CPA.org.hk](mailto:christinang@hki CPA.org.hk))

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Associate Director, Standard Setting

Sincerely,

Chris Joy  
Executive Director, Standards and Regulations

## **Overview of FRSC activities prior to issuing HKFRS 17**

Hong Kong Financial Reporting Standards are developed through a due process outlined in the [Preface to Hong Kong Financial Reporting Standards](#), paragraphs 27 to 29. As with all other standards, HKFRS 17 also followed this due process.

The following points relate to the due process for issuing a HKFRS that is converged with IFRS Standards (stipulated in paragraph 28 of the Preface to HKFRS)

In 2010 and 2013, the Institute conducted public consultations in Hong Kong on the IASB's proposed accounting standard for Insurance Contracts. Following public consultations, the Institute commented on the IASB proposals, which took into consideration feedback received from stakeholders.

In October 2015 and January 2016, the Institute held roundtable meetings to discuss aspects of the then forthcoming Insurance Contracts standard. Insurers, banks, asset management companies, accounting firms, the former insurance regulator (Office of the Commissioner of Insurance) and IASB representatives participated at the meetings. Further outreach with targeted stakeholders took place in August and September 2016 to seek any remaining key concerns with the forthcoming standard. The IASB also sought insurers to participate in a field testing of the forthcoming Insurance Contracts standard. The field testing exercise identified issues around interpretation of the requirements and potential operational difficulties that might arise when applying those requirements. The Institute is aware that at least one large Hong Kong insurer participated in that exercise.

A key concern arising from the roundtables, outreach activities and field testing related to the IASB's then tentative criteria for grouping insurance contracts, which according to feedback lacked interaction with the operations of an insurance business.

The IASB addressed this concern in IFRS 17 to the extent possible and issued IFRS 17 in May 2017. The IASB also took up the Institute's recommendation to establish a Transition Resource Group (TRG) for IFRS 17 to provide implementation support post-issuance of the standard including to consider, if possible, better ways to implement the grouping of contracts.

After analysing the changes made by the IASB in IFRS 17 to address the concern above, including the IASB's effects analysis of IFRS 17 ([Effects Analysis: IFRS 17 Insurance Contracts, May 2017](#)), the Institute was satisfied that it has fulfilled its stipulated due process requirements for issuing HKFRS 17.

The following points are additional initiatives the FRSC undertook on top of the stipulated HKFRS due process

In July 2017, subsequent to the IASB issuing IFRS 17, the Institute conducted targeted outreach with Hong Kong listed insurers and one private insurer. The Institute noted that preliminary implementation of IFRS 17 is already underway. These companies did not raise new concerns on the standard. One company commented that having a standard that provides consistent accounting for insurance contracts across jurisdictions is immensely important, particularly for global organisations—and therefore supports IFRS 17 as a starting point to achieve that.

From July to November 2017, the Institute continued its outreach and education on IFRS 17 to Hong Kong stakeholders, including the regulator, investors and financial analysts. The Institute notes that the Hong Kong investor community sympathises on the potential implementation costs, but is supportive of Hong Kong insurers applying IFRS 17. This is because the change in accounting models will provide much greater insight into the financial performance and financial position of insurers, and provides investors with a better understanding of insurers' risks. During this time, the Hong Kong Federation of Insurers and the Insurance Authority expressed support to the new standard, but shared their concerns on implementation challenges that the industry might face leading up to the effective date. The Institute is also aware of the market concern regarding potential lack of resources and potential inconsistent adoption/application of the standard in other jurisdictions.

The Institute also communicated with national standard-setters of other capital markets about their plans for adopting IFRS 17. To date, Australia, Canada, Malaysia, New Zealand and South Africa have adopted. Korea is in the process of translating IFRS 17, whilst Europe, Japan and Singapore are deliberating the adoption of the standard. China plans to add IFRS 17 to its 2018 standards convergence work program.



Our Ref.: C/FRSC

**Sent through electronic mail**

3 January 2018

Mr Hans Hoogervorst  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Hans,

**IFRS 17 Insurance Contracts**

The Hong Kong Institute of Certified Public Accountants ("HKICPA") is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, and ethics for professional accountants, in Hong Kong.

In accordance with our convergence policy, HKICPA has approved the issuance of HKFRS 17 *Insurance Contracts*, a word-for-word adoption of IFRS 17 including transitional provisions and effective date. HKICPA's strong commitment to high quality global standards that are principle-based, understandable and implementable is unchanged. However, the adoption of HKFRS 17 has presented the HKICPA with circumstances that we wish to share with the IASB.

Hong Kong's insurance regulator is developing its new regulatory capital requirements, expected to be rolled out in phases during 2021 to 2022. Hong Kong insurers will also be required to provide detailed data for quantitative impact studies in the period leading up to the effective date of HKFRS 17. Our insurance regulator is therefore concerned that this would put Hong Kong insurers, particularly the smaller insurers in the non-life insurance sector, under substantial strain, as they would be required to implement new financial reporting and regulatory capital requirements at the same time.

Additionally, our insurance regulator has observed that smaller insurers in particular do not typically have the in-house actuarial expertise required to cope with the significant changes in financial reporting requirements that HKFRS 17 introduces. Given the anticipated surge in demand for actuarial expertise from all insurers in the market, it would be difficult, particularly for these smaller insurers, to recruit experienced actuarial staff or engage well-qualified consultants to ensure implementation of HKFRS 17 by its effective date. HKICPA is aware that this shortage in actuarial expertise and other implementation resource challenges, such as the availability of IT solutions, is not unique to Hong Kong insurers, and is a concern shared across the Asia-Oceania region.

HKICPA is aware of concerns among Hong Kong stakeholders about the possibility of inconsistent adoption or application of IFRS 17 globally. As one of the leading global financial centres, Hong Kong is home to many multinational insurance companies that operate a wide network of insurance businesses in Asia and other jurisdictions that apply IFRS Standards. The key concern from our stakeholders, in this regard, is that other national or regional standard-setters or regulators may introduce guidance or pronouncements that would give more time to implement IFRS 17 or allow the application of its requirement in a way that is simpler than permitted under IFRS 17. This could create



an unfair competitive disadvantage for entities reporting under HKFRS. HKICPA is also aware that these concerns are not unique to Hong Kong insurers.

HKICPA considers that having a globally consistent standard, including effective date, is extremely important to Hong Kong as an international finance centre and is monitoring the progress of implementation and any issues that may arise. However, should there be a need in the future, HKICPA may consider whether it is necessary to deviate from IFRS 17, which we can do in some exceptional cases. HKICPA would also be supportive of the IASB modifying IFRS 17 if pervasive issues that prevent companies from complying with IFRS 17 were identified.

In these circumstances, HKICPA encourages the IASB to continue its monitoring of adoption and outreach activities, and proactively seek feedback from reporting entities as they progress with their implementation projects. HKICPA would also be supportive of the IASB using the outcome of this outreach activity to promptly decide, where appropriate, amendments or simplifications to IFRS 17, especially if the requirements of the new standard were operationally difficult to meet.

Finally, HKICPA appreciates the ongoing support the IASB has offered to HKICPA and its stakeholders in relation to IFRS 17, such as the investor and regulator education sessions held in Hong Kong in the second half of 2017. HKICPA urges the IASB to continue its education efforts with preparers, investors, regulators and governments around the world to rally support behind IFRS 17. The IASB is also recommended to monitor the status of available IT solutions, actuarial and other specialist resources for insurers globally as this will impact the companies' ability to practically implement IFRS 17 by 2021. Jurisdictions and companies that are implementing IFRS 17 would, to some extent, be reassured by this level of IASB support.

HKICPA supports the establishment of IASB's IFRS 17 Transition Resource Group and appreciates the appointment of Hong Kong-based insurance representatives as members of this Group. HKICPA is setting up a HKFRS 17 implementation support group with similar objectives to the IASB's TRG. We will continue to assess implementation developments in Hong Kong, share with the IASB's TRG the challenges with implementing HKFRS 17 and work together with the IASB in resolving those challenges.

If you have any questions regarding the matters raised in this letter, please contact me ([christinang@hki CPA.org.hk](mailto:christinang@hki CPA.org.hk)), or Kam Leung ([kamleung@hki CPA.org.hk](mailto:kamleung@hki CPA.org.hk)), Associate Director of our Standard Setting Department.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'CNg'.

Christina Ng  
Director, Standard Setting Department



## **Establishment of Hong Kong Insurance Implementation Support Group**

On 12 December 2017, the Hong Kong Institute of Certified Public Accountants (HKICPA) approved the issuance of HKFRS 17 *Insurance Contracts*.

HKFRS 17 represents a fundamental change to existing practice for most entities issuing insurance contracts. In view of the magnitude of the change, HKICPA will support implementation of HKFRS 17 through a variety of activities—including establishing a Hong Kong Insurance Implementation Support Group ("HKIISG").

The objectives of the HKIISG are to:

- a) solicit, analyse, and discuss stakeholder questions raised regarding implementation of HKFRS 17;
- b) provide a forum for stakeholders to follow the discussion of questions raised;
- c) identify implementation issues which need to be brought to the attention of the IASB's Transition Resource Group on IFRS 17 *Insurance Contracts*;
- d) identify areas of focus for educational activities; and
- e) provide recommendations for the HKICPA's Financial Reporting Standards Committee (FRSC) to consider, which may include submitting a question to the IFRS Interpretations Committee or writing to the IASB.

The HKIISG will have no authority—no decisions, interpretation or guidance will be issued by the HKIISG. Refer to Annex 1 for an illustration of the operating procedures and Terms of Reference.

### **Call for nominations**

HKICPA is seeking 10 candidates for membership of the HKIISG. Candidates who meet the criteria should be appointed as representatives of their organisation.

Candidates who fulfill the following criteria are encouraged to apply for membership:

- a) have practical and direct knowledge of the ongoing implementation of HKFRS 17;
- b) be capable of sharing their views on the questions submitted;
- c) be capable of considering different perspectives and have an ability to participate in a free exchange of ideas; and
- d) have expertise in a broad spread of insurance product types.

Candidates should apply by sending their resume and a short summary on how they have fulfilled the criteria to [kamleung@hkiipa.org.hk](mailto:kamleung@hkiipa.org.hk). The deadline for applications is on 19 January 2018.

The membership of HKIISG will be announced by early February 2018.

**TERMS OF REFERENCE**  
**HKFRS 17 *Insurance Contracts***  
**Implementation Support Group**

*Establishment of an Insurance Implementation Support Group*

1. HKFRS 17 *Insurance Contracts*, effective on 1 January 2021, represents a fundamental change to existing practice for most entities issuing insurance contracts and is therefore expected to require significant implementation effort.
2. In view of the magnitude of the change, the Institute's Financial Reporting Standards Committee (FRSC) decided to form a Hong Kong Insurance Implementation Support Group (HKIISG) to support stakeholder implementation of HKFRS 17.

*Objectives and scope of activities*

3. The objectives of the HKIISG are to:
  - a) solicit, analyse, and discuss stakeholder questions raised regarding implementation of HKFRS 17;
  - b) provide a forum for stakeholders to follow the discussion of questions raised;
  - c) identify implementation issues which need to be brought to the attention of the IASB's Transition Resource Group on IFRS 17 *Insurance Contracts*;
  - d) identify areas of focus for educational activities; and
  - e) provide recommendations for the FRSC to consider, which may include submitting a question to the IFRS Interpretations Committee or writing to the IASB.
4. The scope of HKIISG meeting discussions will be limited to stakeholder questions raised on implementation of HKFRS 17.
5. The HKIISG will not be expected to discuss questions that are solely actuarial in nature.
6. The HKIISG has no authority. No decisions, interpretation or guidance will be issued by the HKIISG.

*Role and expectations of HKIISG members*

7. Members of the HKIISG should:
  - a) have practical and direct knowledge of the ongoing implementation of HKFRS 17;
  - b) be capable of sharing their views on the questions submitted;
  - c) be capable of considering different perspectives and have an ability to participate in a free exchange of ideas; and
  - d) have expertise in a broad spread of insurance product types.

*Composition and Membership of HKIISG*

8. Membership is by organisation. Member organisations nominate representatives that meet the criteria in paragraph 7 to participate at meetings.
9. Membership may be limited to a maximum of 10 to ensure effective discussion and debate. Membership of the HKIISG may be subject to review at any time.
10. Hong Kong representatives that are members of the IASB's TRG for IFRS 17 *Insurance Contracts* will automatically have a seat on the HKIISG.
11. As the focus is on accounting implementation questions, priority will be given to organizations that issue insurance contracts or are auditors/consultants of the insurance industry. Consequently, not every applicant will be invited to join the group.

12. Observer seats are available for prudential and securities regulators, actuaries, and any company implementing the insurance standard. Observers must register to attend the meetings.

#### *Operating Procedures*

13. Questions may be submitted by any stakeholder. The questions must meet the following criteria:
  - a) must be focussed on, or arise from, implementing HKFRS 17; and
  - b) may result in possible diversity in practice.
14. Questions not focused on the implementation of HKFRS 17, for example, implementation of other standards in parallel with HKFRS 17; will be referred to the HKICPA's Insurance Regulatory Advisory Panel (IRAP), which deals with all insurance related matters.
15. A submission should detail what the question is, background to the question, and why they are asking it. For example, does the question arise because: it is unclear how to apply a specific requirement in the standard; there is an inconsistency within the standard or with other HKFRS standards; or there is an operational impracticality; etc.
16. FRSC is the convener of HKIISG meetings. All questions submitted will be evaluated against the submission criteria, and referred to IRAP or HKIISG. Relevant questions will be circulated to HKIISG in advance of each meeting.
17. HKIISG members will share their views on each submission at the meetings.
18. HKIISG members are expected to analyse and evaluate each submission to determine whether an issue needs to be brought to the attention of the IASB's TRG, or needs to be included as an area of focus for education activities and seminars.
19. A log of all submissions and their resulting outcome will be maintained. Meeting summaries of the discussions held will also be prepared.
20. Meetings will be scheduled to take into account the need to allow for an initial period for interested parties to become familiar with the Standard and submit questions, and for a period of stability prior to the mandatory effective date of HKFRS 17.
21. HKIISG meetings may be scheduled both before and after the IASB's TRG meetings, so that members have the opportunity to consider the issues and the outcomes of the TRG meetings, as well as decide if any follow up action is necessary.
22. Members shall serve on a voluntary, unpaid basis.
23. Similar to the IASB's TRG, the HKIISG will have a limited life (for example, 18 months) during the transition period to allow a period of calm for insurers to focus on full implementation. It is therefore essential for implementation issues to be raised early in the transition period.

#### *Conflicts of Interest*

24. If a member of the HKIISG believes he/she may have a conflict of interest regarding a matter they are consulted on, the member should inform FRSC, who will determine the future participation of the member about that matter.



**Hong Kong Insurance Implementation Support Group:  
Illustration of Operating Procedures**

