สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

September 9, 2019

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Mr. Hoogervorst,

Response on IFRS Standards Exposure Draft ED/2019/4 Amendments to IFRS 17

The Thailand Federation of Accounting Professions of Thailand would like to show our appreciation on the opportunity to response on ***IFRS Standards Exposure Draft ED/2019/4 Amendments to IFRS 17***. Overall, we agree that the amendments can better practically apply by IFRS17 users. However, some revisions need more clarification to avoid any practical issues.

Please find our responses to the specific survey raised in ***IFRS Standards Exposure Draft ED/2019/4 Amendments to IFRS 17*** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Thailand Federation of Accounting Professions.

The Thailand Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

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IFRS Standards Exposure Draft ED/2019/4 Amendments to IFRS 17

Questions for respondents

Question 1—Scope exclusions—credit card contracts and loan contracts that meet the definition of an insurance contract (paragraphs 7(h), 8A, Appendix D and BC9–BC30)
(a) Paragraph 7(h) proposes that an entity would be required to exclude from the scope of IFRS 17 credit card contracts that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. Do you agree with the proposed amendment? Why or why not? (b) If not excluded from the scope of IFRS 17 by paragraphs 7(a)–(h), paragraph 8A proposes that an entity would choose to apply IFRS 17 or IFRS 9 to contracts that meet the definition of an insurance contract but limit the compensation for insured events to the amount required to settle the policyholder's obligation created by the contract (for example, loans with death waivers). The entity would be required to make that choice for each portfolio of insurance contracts, and the choice for each portfolio would be irrevocable. Do you agree with the proposed amendment? Why or why not?

TFAC :

(a) Agree, this proposal would reduce IFRS17 implementation costs for credit card issuers that currently account for a loan or loan commitment in a credit card contract under IFRS9.

(b) Agree, this proposal would reduce IFRS17 implementation costs for many lenders.

Question 2—Expected recovery of insurance acquisition cash flows (paragraphs 28A–28D, 105A–105C, B35A–B35C and BC31–BC49)
Paragraphs 28A–28D and B35A–B35C propose that an entity: (a) allocate, on a systematic and rational basis, insurance acquisition cash flows that are directly attributable to a group of insurance contracts to that group and to any groups that include contracts that are expected to arise from renewals of the contracts in that group; (b) recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised; and (c) assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired. Paragraphs 105A–105C propose disclosures about such assets. Do you agree with the proposed amendments? Why or why not?

TFAC :

(a), (b) Agree, newly issued contracts with high insurance acquisition cash flow – e.g. initial commission – are less likely to be onerous.

Moreover, the standard (paragraph 28B-28D) should be specified all 3 measurements (GMM, VFA and PAA) and pre-coverage costs to make it more clearly.

(c) Refer to BC44, However, it is still unclear on how to do impairment for DAC asset as it may involve significant management judgement over key assumption e.g. renewal ratio. Impairment test should have an option to apply the concept of fulfilment cash flow.

Question 3—Contractual service margin attributable to investment-return service and investment-related service (paragraphs 44–45, 109 and 117(c)(v), Appendix A, paragraphs B119–B119B and BC50–BC66)

(a) Paragraphs 44, B119–B119A and the definitions in Appendix A propose that an entity identify coverage units for insurance contracts without direct participation features considering the quantity of benefits and expected period of investment-return service, if any, in addition to insurance coverage.

Paragraph B119B specifies criteria for when contracts may provide an investment-return service.

Do you agree with the proposed amendment? Why or why not?

(b) Paragraphs 45, B119–B119A and the definitions in Appendix A clarify that an entity is required to identify coverage units for insurance contracts with direct participation features considering the quantity of benefits and expected period of both insurance coverage and investment-related service.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph 109 proposes that an entity disclose quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period. Paragraph 117(c)(v) proposes an entity disclose the approach used to determine the relative weighting of the benefits provided by insurance coverage and investment-return service or investment-related service.

Do you agree with the proposed disclosure requirements? Why or why not?

TFAC :

(a), (b) Agree, better aligns the accounting with the service provided.

Most insurers have raised concerns with operational complexity of weighting coverage units for different services and need the practical expedient. The IASB might consider additional flexibility for insurers by having separate coverage units within a group of insurance contract (GIC).

(c) Agree on the disclosure requirement but the standard should be more clearly about the details, need more clarification on paragraph 117 (c)(v): What is the relative weighting of benefits? And how to measure?

Moreover, many insurers have expressed concerns with the disclosure under paragraph 109 that may disclose each entity's trade secret and competitive harm. But prefer to provide only qualitative information on the CSM recognition.

Question 4—Reinsurance contracts held—recovery of losses on underlying insurance contracts (paragraphs 62, 66A–66B, B119C–B119F and BC67–BC90)

Paragraph 66A proposes that an entity adjust the contractual service margin of a group of reinsurance contracts held that provides proportionate coverage, and as a result recognise income, when the entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous contracts to that group. The amount of the adjustment and resulting income is determined by multiplying:

(a) the loss recognised on the group of underlying insurance contracts; and

(b) the fixed percentage of claims on the group of underlying contracts the entity has a right to recover from the group of reinsurance contracts held.

Do you agree with the proposed amendment? Why or why not?

TFAC : Agree, addresses accounting mismatches that arise on initial recognition when insurer reinsures onerous contracts using proportionate reinsurance coverage.

Question 5—Presentation in the statement of financial position (paragraphs 78–79, 99, 132 and BC91–BC100)

The proposed amendment to paragraph 78 would require an entity to present separately in the statement of financial position the carrying amount of portfolios of insurance contracts issued that are assets and those that are liabilities. Applying the existing requirements, an entity would present the carrying amount of groups of insurance contracts issued that are assets and those that are liabilities. The amendment would also apply to portfolios of reinsurance contracts held that are assets and those that are liabilities.

Do you agree with the proposed amendment? Why or why not?

TFAC : Agree in the high level presentation. However, according to paragraph 96 in IFRS17, regarding on the insurers the disclose at total company level disaggregate by measurement model would be more preferable because of competitive and alignment with other industries.

Question 6—Applicability of the risk mitigation option (paragraphs B116 and BC101–BC109)
The proposed amendment to paragraph B116 would extend the risk mitigation option available when an entity uses derivatives to mitigate financial risk arising from insurance contracts with direct participation features. That option would apply in circumstances when an entity uses reinsurance contracts held to mitigate financial risk arising from insurance contracts with direct participation features. Do you agree with the proposed amendment? Why or why not?

TFAC : Agree, reduces accounting mismatches that arise when reinsurance contracts held are used to mitigate financial risk of direct participating contracts.

Question 7—Effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 (paragraphs C1, [Draft] Amendments to IFRS 4 and BC110–BC118)
IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021. The amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk undue delays in the effective date. (a) The proposed amendment to paragraph C1 would defer the effective date of IFRS 17 by one year from annual reporting periods beginning on or after 1 January 2021 to annual reporting periods beginning on or after 1 January 2022. Do you agree with the proposed amendment? Why or why not? (b) The proposed amendment to paragraph 20A of IFRS 4 would extend the temporary exemption from IFRS 9 by one year so that an entity applying the exemption would be required to apply IFRS 9 for annual reporting periods beginning on or after 1 January 2022. Do you agree with the proposed amendment? Why or why not?

TFAC : Disagree, we proposed the effective date of IFRS 17 would be deferred after year 2022 but not later than 1 January 2025 because the amendments proposed in this Exposure draft have significant impacts to disrupt implementation of IFRS 17.

IFRS 17 is the standard that has significant impact to classification and measurement including presentation and disclosure to insurance business. Moreover, IFRS 17 need the actuarial assumption matching with business model.

The important process for the implementation of IFRS 17 is that the preparation of date, system, business process and resources both the actuaries, system developers and human resources to develop linkage with the existing system of insurance business.

Although the amendments proposed in this Exposure Draft are such that they should not unduly disrupt implementation already under way or risk under delays in the effective date, but they amend many calculation and presentation in the financial statement. The deferred of effective date by one year will effect to revise system for implementation of IFRS and lacking at system developers and actuaries to develop operating system for supporting this amendment.

Question 8—Transition modifications and reliefs (paragraphs C3(b), C5A, C9A, C22A and BC119–BC146)

(a) Paragraph C9A proposes an additional modification in the modified retrospective approach. The modification would require an entity, to the extent permitted by paragraph C8, to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired.

Paragraph C22A proposes that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims.

Do you agree with the proposed amendments? Why or why not?

(b) The proposed amendment to paragraph C3(b) would permit an entity to apply the option in paragraph B115 prospectively from the transition date, rather than the date of initial application. The amendment proposes that to apply the option in paragraph B115 prospectively on or after the transition date, an entity would be required to designate risk mitigation relationships at or before the date it applies the option.

Do you agree with the proposed amendment? Why or why not?

(c) Paragraph C5A proposes that an entity that can apply IFRS 17 retrospectively to a group of insurance contracts be permitted to instead apply the fair value approach to that group if it meets specified criteria relating to risk mitigation.

Do you agree with the proposed amendment? Why or why not?

TFAC : Agree, provide practical relief by eliminating the challenge of recording claims liabilities in two different ways – as IFRS 17 currently requires – if the information is not available.

Question 9—Minor amendments (BC147–BC163)
This Exposure Draft also proposes minor amendments (see paragraphs BC147–BC163 of the Basis for Conclusions). Do you agree with the Board's proposals for each of the minor amendments described in this Exposure Draft? Why or why not?

TFAC : Agree with the minor amendments to clarify the wording of the standard except for the paragraph 109, that we would like to be as the same version since most insurers have a view that the quantitative information about when the entity expects to recognise in profit or loss the contractual service margin remaining at the end of a reporting period may disclose each entity's trade secret and competitive harm. Therefore, the disclosure of an explanation by providing qualitative information is practically preferable.

Question 10—Terminology
This Exposure Draft proposes to add to Appendix A of IFRS 17 the definition 'insurance contract services' to be consistent with other proposed amendments in this Exposure Draft. In the light of the proposed amendments in this Exposure Draft, the Board is considering whether to make a consequential change in terminology by amending the terms in IFRS 17 to replace 'coverage' with 'service' in the terms 'coverage units', 'coverage period' and 'liability for remaining coverage'. If that change is made, those terms would become 'service units', 'service period' and 'liability for remaining service', respectively, throughout IFRS 17. Would you find this change in terminology helpful? Why or why not?

TFAC : Agree with the amendment but need more clarification on

• Appendix A under "reinsurance contract held that provides proportionate coverage", the amendment states that the percentage is fixed for all contracts in a single group of underlying insurance contract but can vary between group of underlying insurance contracts.

If the reinsurance agreement is surplus, the proportion of coverage will be fixed but may not the same for each insurance contract. Can these insurance contracts be in the same group?