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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
United Kingdom

Comments on the Exposure Draft *Amendments to IFRS 17*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Amendments to IFRS 17* ("ED").

We recognise that IFRS 17 is a significant standard as it will require new insurance accounting practices, widely affecting many countries and jurisdictions. From the standpoint of audit practitioners, we welcome necessary amendments to IFRS 17 to address practical issues and prepare for a smooth application of IFRS 17. That being said, we believe that many of the proposed amendments still need clarification on their requirements as well as further guidance and other meaningful support in order to avoid any undue disruption in practice. We would like to comment on the questions set out in the ED based on our knowledge of IFRS 17 and insurance accounting practice.

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?

Comment:

(a) We agree with the proposed amendment on condition that further consideration be made on the following matters.

We believe that the costs of applying insurance contract accounting to credit card contracts, whose primary purpose is to provide credit services, will exceed the benefits to be received from the information provided. However, we suggest that additional consideration should be made on the following areas:

(1) The definition of credit card contracts is not set forth within IFRS 17. We recommend that further clarification is required for contracts that can be excluded from the scope of IFRS 17, while considering discussions in the IASB Agenda Paper 2D (March 2019). Especially, we suggest that the IASB look into other contracts for scope exclusion purposes, provided that there could be contracts other than credit card contracts that should be excluded for the exact same reason as for credit card contracts.

(2) Reference of paragraph 7(h) to IFRS 9 and the associated consequential amendments to paragraph 2.1(e)(iv) of IFRS 9 may appear that credit card contracts excluded from the scope of IFRS 17 should be included in the scope of IFRS 9. However, fees received by issuers of credit card contracts generally represent consideration received for various services provided based on contracts with customers. That being said, we can argue that IFRS 15 (and IAS 37) should be applied to account for rights

and obligations arising from such credit card contracts (see paragraphs 37 and 38 of the IASB Agenda Paper 2D, March 2019, for detail). Accordingly, we suggest that the applicability of IFRS 15 (and IAS 37), in addition to the application of IFRS 9, should be reconsidered for clarification.

(b) We agree with the proposed amendment on condition that a clarification be made on the unit of account to be the legal contract level.

As described in IFRS 17 BC18, both credit risk and insurance risk are the prominent features in contracts specified in the proposed amendment. Financial institutions that do not issue insurance contracts may choose to apply IFRS 9, thereby achieving consistent accounting treatments with other financial assets. On the other hand, financial institutions that mainly undertake insurance contracts may choose to apply IFRS 17, thereby achieving consistent accounting treatments with other insurance contracts issued on their own. In this way, more useful information can be provided to users.

However, there are cases where a banking subsidiary provides loan contracts and an insurance subsidiary provides insurance contracts, respectively, within the same group. As stated in IFRS13 BC47(b), the unit of account for financial instruments is generally an individual financial instrument (or the legal contract level). To maintain consistency for accounting purposes, IFRS 17 should clearly state that the unit of account is represented by the legal contract level, which is the unit of contract under which an entity will enter into a transaction with third parties.

Furthermore, the ED proposes two additional scope exclusions to the requirements in IFRS 17 for contracts that meet the definition of an insurance contract but could be excluded from the scope of IFRS 17. We suggest that the IASB clarify in the Basis of Conclusion as to what kind of criteria were used in determining such scope exclusions. This would also be useful from the perspective of ensuring fairness in the standard-setting process.

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?

Comment:

We highly recommend the IASB to carefully consider the following matters in the proposed amendment.

As stated in IFRS 17 BC39, we recognise the proposal of allocating insurance acquisition cash flows to a group that includes contracts expected to arise from renewals of contracts in that group would provide useful information to users of financial statements, as it better reflects the business model of insurance companies, which is to recover insurance acquisition cash flows paid to acquire insurance contracts in the future through renewals of those contracts.

However, as observed in BC41, the proposed amendment in paragraph B35A(b) of IFRS 17 would extend the period for which an asset is recognised for such insurance acquisition cash flows. We believe that the following areas should be carefully considered for the purpose of comparability and consistency of information on the determination of the extended period, the scope of insurance acquisition cash flows recongnised as an asset, and the measurement of the asset.

(1) As no explicit requirement is proposed in the ED regarding the period for expected renewals and the estimation method to determine the period, we are afraid that inconsistent accounting in the estimation of expected contract renewals would arise in areas, such as the accounting for experience adjustments, line items for impairment losses and reversal of impairment losses, reconciliations required in paragraphs 100 and 101 of IFRS 17, application requirement for the unit of account, and the accounting for contracts derecognised before renewals. Accordingly, we highly recommend that the IASB provide illustrative examples for typical calculations, application guidance, or any other supplementary information.

(2) The IASB decided not to specify any requirements for accretion of interest on insurance acquisition cash flows recognised as an asset. The rationale behind the decision is given in IFRS 17 BC41, which states that IFRS 15 also does not specify requirements for the accretion of interest on assets recognised applying paragraph 91

or 95 of IFRS 15. However, insurance contracts, especially life insurance, generally have longer insurance periods, and thus the effect of time value of money becomes more significant for insurance contracts. That being said, we do not believe that ensuring consistency with IFRS 15 is a good enough reason to justify the IASB's decision on not specifying any requirements for accretion of interest on insurance acquisition cash flows recognised as an asset, as the nature of insurance contracts is not taken into account. In the ED, entities are required to conduct impairment testing on insurance acquisition cash flows recognised as an asset at the end of each reporting period. When assessing impairment, the carrying amount of an asset is compared to its recoverable amount, which is generally determined by using discount calculations and discount rates. We believe that this would become another basis for the need to clarify the accounting treatment for interest accretion on insurance acquisition cash flows recognised as an asset.

(3) According to paragraph 28D of IFRS 17, if there is an indication of impairment in insurance acquisition cash flows recognised as an asset, it is required that an entity should recognise any impairment loss identified applying paragraph B35B of IFRS 17. For the purpose of measuring impairment losses, information on expected net cash inflow and comparison with net cash inflow for the expected renewals is required; however, 'net cash inflow' is not defined in either case. As a result, uncertainty remains in areas, such as the difference from a contractual service margin, specific items to be considered for the calculation, and the appropriateness of using the comparison as part of the impairment assessment. We recommend that 'net cash inflow' should be clearly defined in the ED to enable an efficient impairment testing.

(4) According to paragraph 28A, when applying the premium allocation approach to contracts, an entity may recognise insurance acquisition cash flows as expenses applying paragraph 59(a), instead of allocating the amount to expected contract renewals. However, it is uncertain as to whether paragraph 59(a) was originally intended to accept one-time expense accounting for insurance acquisition cash flows that should be allocated to expected contract renewals. Further, even when the premium allocation approach is applicable to contracts, it should be determined for each group of contracts whether or not to apply paragraph 59(a), which could cause a comparability issue. We believe that careful thoughts should be given on the comparability and consistency with the general model. Consequently, when applying the premium allocation approach to contracts, we recommend that further

consideration be made on whether or not to accept one-time expense accounting for insurance acquisition cash flows that should be allocated to expected contract renewals.

(5) When retrospectively applying the proposed amendment, it is quite uncertain as to whether a reliable estimate can be made on contract renewals without making any discretionary judgement as no relief is added to the modified retrospective approach. Transition requirements should be revisited regarding this matter.

(6) As stated in Appendix A and IFRS 17 BC31, insurance acquisition cash flows include cashflows that are not directly attributable to individual contracts or groups of insurance contracts but are directly attributable to the portfolio of insurance contracts to which the group belongs. On the other hand, paragraph 28A refers to paragraph B35A, which is a requirement for insurance acquisition cash flows directly attributable to groups of insurance contracts, meaning that the proposed amendment is only applicable for insurance acquisition cash flows that are directly attributable to groups of insurance contracts. It is also stated in IFRS 17 BC31 that the proposed amendment is issued 'to clarify that insurance acquisition cash flows relate to groups of insurance contracts issued or expected to be issued.' Having that said, it appears that insufficient explanation is provided for the accounting for insurance acquisition cash flows that are not directly attributable to groups of insurance contracts as well as for the background and reason as to why they are scoped out from the proposed amendment. We recommend that additional explanation or background information for the conclusion should be provided in the standard.

(7) According to the Conceptual Framework, an asset is an economic resource controlled by the entity as a result of past events, and the economic resource is the right to have the potential to generate economic benefits. In the context of the Conceptual Framework, it is uncertain as to whether or not insurance acquisition cash flows recognised as an asset meet the definition of an asset from the perspective of economic benefits. It appears that this point is not made clear within the proposed amendment.

The Conceptual Framework further stipulates that 'there is a close relationship between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that future economic benefits were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained.' Therefore, a question remains as to whether or not a part of insurance acquisition cash flows recognised as an asset, which represents the non-refundable portion due to policyholders' cancellation, has the potential to generate economic benefits.

When finalising the standard, we suggest including a statement in the Basic of Conclusion of IFRS 17 about the departure from the Conceptual Framework (see paragraph SP1.3 of the Conceptual Framework).

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?

Comment:

(a) We agree with the proposed amendment on condition that guidance and illustrative examples be provided for measurement.

Cash flows arising from insurance contracts without direct participation features may vary along with the change in return of underlying items. In such cases, we recognise that the identification of coverage units that consider both insurance coverage and investment-return service truly reflects the nature of insurance contracts.

That being said, we do not believe that the definition of investment-return service is clearly provided in the proposed amendment. Further, when determining the attribution of contractual service margin to each period, we believe that including an investment-return service in addition to insurance coverage and assessing the weighting of services in determining coverage units certainly add subjectivity and complexity to the process. As a result, preparers might interpret the proposed amendment in many different ways. Moreover, paragraph B119B specifies criteria for when contracts may provide an investment-return service; however, the definition of 'a positive investment' return is not necessarily clear and, as stated in IFRS 17 BC60, the criteria are not determinative of the existence of such a service. These are making it more difficult to identify the existence of investment-return service.

Hence, we recommend the IASB to clarify requirements and related accounting treatments to ensure comparability of identified investment-return service by providing clear guidance and additional illustrative examples for the measurement, publishing educational material, and offering other meaningful support as necessary.

(b) We agree with the proposed amendment on condition that guidance and illustrative examples be provided for measurement.

Given that insurance contracts with direct participation features are contracts that are substantially investment-related service contracts (paragraph B101), we believe that the identification of coverage units that consider both insurance coverage and investment-return service truly reflects the nature of insurance contracts.

However, as with insurance contracts without direct participation features, we are concerned that the definition of investment-related service is not clearly provided in the proposed amendment. As such, preparers might interpret the proposed amendment in many different ways regarding the type and scope of services for which coverage units should be identified.

As we suggested for the determination of coverage units for insurance contracts without direct participation features, we believe that the IASB should provide guidance and illustrative examples for the measurement, prepare and publish educational material, and offer other meaning support as necessary.

(c) We agree with the proposed amendment on condition that additional guidance and simplified calculation examples with disclosure examples be also provided.

The identification of coverage units considering insurance coverage and investment-return service or investment-related service and the allocation to each reporting period involve complexity and require judgement. That said, we believe that the disclosure of quantitative information would provide useful information to users about how the recognition pattern for contractual service margin is determined based on the judgement. According to IFRS 17 BC62, the Board has concluded that it is sufficient to require the weighting of benefits from insurance coverage and investment-return service when determining coverage units to be assessed on a systematic and rational basis. This is a new concept proposed in the ED, which heavily relies on the judgement of reporting entities, meaning that entities might not always make the same judgement for similar products. Therefore, we highly recommend that the IASB provide additional guidance, simplified calculation examples together with disclosure examples, and other supporting material.

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?

Comment:

We agree with the proposed amendment on condition that further consideration be made on the following matters.

We agree with the overall proposed amendment as it is expected to improve consistency between the accounting treatment for reinsurance contracts held relating to the initial recognition of underlying onerous contracts and subsequent adverse changes in onerous groups of underlying contracts, thereby reducing accounting mismatches.

We suggest that further consideration is required in the following five areas:

(1) The proposed amendment focuses on reinsurance contracts held that provide

proportionate coverage, which is defined in Appendix A as 'a reinsurance contract held that provides an entity with the right to recover from the issuer a percentage of all claims incurred on groups of underlying insurance contracts.' As there will be limited applicable contracts in practice, we are afraid that little effect can be expected from the proposed amendment. Further, paragraph 66(c)(ii) is applicable regardless of whether reinsurance contracts held provide proportionate coverage or not, which is inconsistent with the scope under the proposed amendment, leading to different accounting treatments between the time of initial recognition and subsequent measurement. Although the scope need not be extended too far to excess-of-loss type of reinsurances, as discussed in IFRS17 BC80, we still recommend that the proposed amendment should scope in reinsurance contracts that are substantially equivalent to those that provide proportionate coverage, such as when a number of proportionate reinsurance contracts with different fixed percentages are mixed up in the same group, or when only the minimum guarantee portion of variable insurances is covered through reinsurance contracts. We suggest that the requirement should be further amended accordingly or a statement should be added to the Basis of Conclusion, explaining that such interpretation can be made within IFRS 17.

(2) When, at initial recognition, assessing the relationship of 'an onerous group of underlying insurance contracts' and 'a profitable group of underlying insurance contracts' for a group of reinsurance contracts held, and the contractual service margin of the reinsurance contract group corresponding to the 'onerous group of underlying insurance contracts' turns out to be a cost for the company purchasing reinsurance contracts (cedant), which is illustrated in the Snapshot case, it appears that a gain, which represents initial loss multiplied by reinsurance coverage ratio, as well as a reinsurance contract asset will be recognised according to IFRS 17 BC78 and BC82-84. However, when cost is incurred at initial recognition for reinsurance contracts held, no gain that can cover initial loss is expected from such reinsurance contracts. In such cases, the accounting would be equivalent to deferral of loss recognition, as seen in the example illustrated in the Snapshot. This is an accounting mismatch between cost and gain, arising from an upfront recognition of reinsurance gain (that is, claims to be recovered from reinsurance) corresponding to the initial loss on underlying onerous contracts, but no recognition of related cost (that is, reinsurance premiums to be paid) on underlying insurance contracts. This accounting consequence lacks a reasonable and sufficient basis, and we believe that this is a result of a structural deficiency in the calculation formula. To solve the issue, we

recommend that reinsurance gain corresponding to the initial loss on underlying onerous contracts should be recognised only when the contractual service margin of reinsurance contracts is profitable for the company purchasing reinsurance contracts at initial recognition and only up to the amount of such profit. This aligns with the accounting for underlying insurance contracts that become onerous at subsequent measurements.

(3) According to IFRS 17 BC85, to apply paragraph 66A of the ED, reinsurance contracts held must be recognised before or at the same time that the loss is recognised on the onerous group of underlying insurance contracts. In practice, there are cases where reinsurance contracts are signed after recognising the onerous group of underlying insurance contracts. If the ceding insurance company were to realise gain from such reinsurance contracts, it might not be accounted for appropriately under the current proposed amendment, as it appears that such transactions are scoped out from the proposal. Thus, we recommend that the IASB should consider certain conditions under which the proposed amendment can also be applied to subsequently signed reinsurance contracts.

(4) According to paragraph 66B of IFRS 17, a loss-recovery component arises on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts applying paragraph 66A. To align with the requirement, we suggest that the accounting for subsequently recognised gains from reinsurance contracts, including non-proportionate reinsurance contracts, should be clearly stated in the standard.

(5) It appears that the proposed amendment sees a certain relationship between a group of underlying insurance contracts and a group of reinsurance contracts. However, discussions made in IFRS 17 BC180-185 do not seem to recognise the relationship as in the proposed amendment. An entity generally purchases reinsurance contracts to mitigate risks arising from underlying insurance contracts. Given the nature of such reinsurance contracts, we suggest that further consideration should be made on the accounting for cash flows of the reinsurance contract held that relate to underlying insurance contracts that have not yet been issued, acknowledging the relationship with the underlying insurance contract.

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?

Comment:

We agree with the proposed amendment on condition that further consideration be made on the following matters.

We agree with the proposed amendment, provided that a presentation based on a group of insurance contracts might not be useful to users when quite a few number of groups are presented in the statement of financial positions. Further, the proposed amendment is expected to reduce the burden of preparers.

We request the following to be further considered by the IASB.

(1) We understand that the proposal in paragraph 79 of IFRS 17 indicates insurance acquisition cash flows to be allocated to a group of future insurance contracts due to renewals are also included in the carrying amount of the related portfolios of insurance contracts issued. That being said, we recommend rewording paragraph 79, which is currently limited to 'the carrying amount of the related portfolio of insurance contracts issued.'

(2) We also understand that the proposed amendment indicates that both premiums receivable and claims payable should be included in the amount of insurance contract assets and liabilities, instead of separately recognising assets and liabilities, provided that premiums receivable and claims payable form part of rights and obligations arising from the original insurance contract. However, we believe that there are certain cases where financial assets and liabilities should be separately recognised, such as when an insurance company (a principal) uses insurance agencies and/or collection agencies (an agent). In such cases, receivables and payables related to insurance contracts arise with third parties. Clarification should be made on the accounting treatment for such receivables and payables, otherwise it may lead to a

wide variety of accounting practices.

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?

Comment:

We agree with the proposed amendment on condition that further consideration be made on the following matters.

It is quite common as a practice to use reinsurance contracts to mitigate financial risk arising from insurance contracts with direct participation features. As reinsurance contracts reflect the economic reality of risk mitigation as derivatives do likewise, we agree with the proposed amendment. We request that the following should be further considered by the IASB.

(1) The proposed amendment only specifies that the risk mitigation option can be excluded from a change in contractual service margin to reflect 'some or all' of the changes (see paragraph B115 of IFRS 17); however, it does not specify the extent of acceptable amount to be excluded. Therefore, for example, when a change of 50 arises from a risk mitigation option with 50% reinsurance coverage ratio, it is technically possible under the proposed amendment to account for a change in the primary insurance contract of 60 (assuming 30 is covered under reinsurance) to be excluded from the contractual service margin. This illustrates that the proposed amendment could possibly lead to unintended results, such as netting profit and loss without considering reinsurance coverage ratios. Therefore, we recommend that the proposed amendment should clearly stipulate not only the option to be excluded from a change in contractual service margin, but also the extent of acceptable amount of exclusion depending on reinsurance coverage ratios.

(2) Line items for risk mitigation options are not clearly defined in the proposed amendment. For example, when an entity uses reinsurance contacts held as a means

of risk mitigation and adopts an accounting policy to recognise insurance finance income or expenses in profit or loss, it is uncertain as to whether changes in risk mitigation instruments and risk mitigated subjects are appropriately presented in insurance finance income or expenses with consistency. Similarly, when an entity adopts an accounting policy to classify insurance finance income or expenses into profit or loss and other comprehensive income (OCI), and applies the OCI option under which reinsurance contacts held are used as a means of risk mitigation, it is not clear whether or not the effect of financial risk arising from insurance contracts with direct participation features can be recognised in OCI instead of contractual service margin. We do not believe that IFRS 17 BC109 is providing a convincing argument on this matter. We recommend that clarification should be made in the proposed amendment to prevent entities from entering into a wide range of accounting practices.

(3) As described in IFRS 17 BC104, there are certain reinsurance contracts, in practice, that transfer both non-financial risk and financial risk to the reinsurer. Although it is stated in IFRS 17 BC107 that reinsurance contracts do not provide asset management services, we believe that they do in certain cases. For example, when reinsurance contracts provide proportionate coverage for underlying insurance contracts, we understand that such reinsurance contracts would entail the nature of asset management services if the same services are included in the underlying insurance contracts issued.

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?

Comment:

We agree with the proposed amendment on condition that careful deliberation be made on whether deferring the effective date by one year is sufficient enough for the implementation only after going through comments received for the proposed amendment and having discussions with stakeholders.

To address various issues raised by stakeholders, we agree with the IASB's proposal to defer the effective date of IFRS 17 and to extend the expiry date in IFRS 4 for the temporary exemption from applying IFRS 9 by one year, as it would certainly reduce undue disruption in practice.

Although we agree with the IASB's perspective in IFRS 17 BC114 that IFRS 17 is the standard urgently needed to address many inadequacies in existing accounting practices for insurance contracts, we are not sure whether the one-year deferral period is sufficient, given that, in practice, we notice that a number of preparers are having a hard time facing various issues for the application of IFRS 17. We believe that the more prepared preparers are for the application of IFRS 17, the more appropriate audit services are to be provided. Therefore, we highly recommend that the IASB carefully examine feedbacks received from stakeholders.

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?

Comment:

(a) We agree with the proposed amendment.

We agree with the additional modification in the modified retrospective approach, which requires an entity to classify as a liability for incurred claims a liability for settlement of claims incurred before an insurance contract was acquired. Further, we agree with the proposal to allow an entity to choose the same classification under the fair value approach.

(b) We agree with the proposed amendment.

We agree with the proposal of not allowing an entity to apply the risk mitigation option retrospectively in order to make it consistent with the requirement in IFRS 9, which stipulates that entities are not allowed to apply requirements for hedge accounting retrospectively in the reporting period applying IFRS 9 for the first time.

(c) We agree with the proposed amendment on condition that a clarification be made in the requirement to shut out any discretionary opportunities.

It is required under paragraph C5A(b) of IFRS 17 that an entity has used derivatives or reinsurance contracts before the transition date; however, details are not specified in the proposed amendment, such as a requirement for the period and scope for the application. If an entity intends to avoid the application of the full retrospective approach, the entity might be able to exercise its discretion and chose the fair value approach by using derivatives or reinsurance contracts before the transition date. To avoid such cases, we suggest that a clarification be made in the requirement to leave no room for any discretionary opportunities.

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?

Comment:

We agree with the proposed amendment on condition that further consideration be made on the following matters.

(1) In the process of deleting paragraph 27 and adding paragraph 28C of IFRS 17, IFRS 17 BC148 explains that a change has been made to paragraph 27 of IFRS 17 to delete 'or liability,' as it is always an asset that arises before the related group of insurance contracts is recognised. Meanwhile, the wording 'or liability' is deleted from paragraph 55(a)(iii) of IFRS 17, which refers to paragraph 28C; however, the same wording is still left out in paragraph 38 (b) of IFRS 17, which also refers to paragraph 28C. Accordingly, we suggest deleting the wording 'or liability' from paragraph 38 (b). At the same time, if there are only assets, we recommend deleting the wording 'plus' from paragraph 55(a)(iii) which says 'plus or minus.'

(2) Given the consideration on the minor amendment in IFRS 17 BC160, a new text is added to paragraph B123(a)(iia), which says 'changes resulting from cash flows from loans to policyholders.' On the other hand, the existing IFRS 17 BC114 states that policy loans are investment components, and paragraph B123(a)(ii) stipulates that 'changes that relate to investment components in the period.' It appears that the relationship is not clear between the standards. Further, once the definition of investment components changes, then we have to think about whether there could be any contracts that include policy loans without any investment components. In such cases, it is uncertain as to how IFRS 17 BC114 will be affected. Therefore, we recommend that the IASB amend IFRS 17 BC114 accordingly.

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?

Comment:

We agree with the proposed amendment on condition that further consideration be made on the following matters.

We agree with the overall proposal to make changes in terminology to better reflect other proposed amendments in the ED. We recommend that further consideration should be made on the following:

(1) As commented at Question 3, 'investment-return service' and 'investment-related service' are new concepts and, as such, a clear definition is required to avoid unnecessary confusion in accounting practices. Further, we recommend that illustrative examples or other guidance should be provided to show how the new concepts will be reflected in the attribution of contractual service margin to each period.

(2) In the ED, we understand that the definition of an 'investment component' is now clarified; however, a specific definition or accounting treatment is not provided for 'refunds of premiums.'

At the Transition Resource Group (TRG) meeting for IFRS 17 held in April 2019, it was discussed that when no insured event occurs and no refund is made until maturity under a contract, such as term life contract, no investment component is included in the contract. Also discussed was that refunds on cancellation of a policy should be accounted for as 'refunds of premiums.' Although it is proposed in the ED that investment components can be combined with 'refunds of premiums' for disclosure purposes (paragraph 103), there is no definition of 'refunds of premiums' within the ED. Accordingly, it is unclear as to whether or not 'refunds of premiums' only represent refunds of unearned premiums allocated proportionately over a relatively short period (e.g. short-term automobile insurance contracts), or could represent any type of surrender value that does not incorporate investment components even when they relate to long-term installment insurance contracts. Accounting treatments for 'refunds of premiums' are not specified in the ED either. That said, we recommend that specific definition and accounting treatment should be provided for 'refunds of premiums.'

(3) We assume that the proposal to amend the terms to replace 'coverage' with 'service' is to distinguish the following two cases: one is to focus on 'insurance coverage;' and the other is to focus on both 'investment service' and 'insurance coverage.' However,

no clear reason or background for amending the terms is documented in the proposal. Furthermore, it seems that the use of 'coverage' and 'service' is mixed up in the ED. For example, in paragraph 62 of the ED, the wording 'proportionate coverage' is used, but if investment-return service is included in the original insurance contract and the investment-return service is also proportionately transferred to reinsurers, we believe that 'proportionate service' is a more accurate term to be used. It is difficult to understand how the two terms are used differently in the ED. In addition, if the meaning of 'insurance coverage' is not implicated in the word 'service' in the term 'investment return service,' then the word 'service' used in the term 'insurance contract service' would refer to different scope, although it is the same word 'service.' This would make it more difficult for users to understand the ED.

Accordingly, if the word 'service' is meant to have a broader concept than 'coverage,' then the rewording should, only after providing detail of the change in the BC or other documents, be made in a comprehensive and organised manner with a careful screening process, including the review of the term 'investment return service.'

(4) According to IFRS 17 BC143 and BC144, the need for estimates in the modified retrospective approach is pointed out by the IASB. However, the details of the requirements are not provided regarding this matter. In the application of the modified retrospective approach, it is imperative to provide accounting treatments for making estimates, including estimates as an approximation for missing information. Therefore, we recommend that the provision should be provided in Appendix C, not in the Basis of Conclusion.

(5) We understand that, in principle, IFRS 17 sets out accounting treatments for contracts to which the general model applies, and appropriate accounting treatments for the premium allocation approach and the variable fee approach are separately provided in IFRS 17. When cancellation of a policy arises in a group of insurance contracts applying the general model, the accounting treatment is set out in paragraph 76. On the other hand, when cancellation arises in a group of insurance contracts applying the premium allocation approach, there is no accounting treatment stipulated in IFRS 17. In such cases, the requirement for a group of insurance contracts applying the general model could be applied to the premium allocation approach. But this could result in two different accounting treatments; one is to recognise gain on surrender value through the adjustment of insurance income; and the other is to recognise gain on surrender deductive immediately in profit or loss. We highly recommend that the

IASB should clarify as to which accounting treatment is more appropriate to avoid undue disruption in practice.

(6) An amendment is proposed for the definition of ‘liability for incurred claims’ and ‘liability for remaining coverage,’ and paragraph (b) is added to each definition accordingly. We assume that the purpose of this change is to clarify that the definition is met only when the obligations specified in paragraphs (a) and (b) are considered together. However, the current IFRS 17 standard, starting with ‘An entity’s obligation to,’ sounds as if the definition is met by simply satisfying either (a) or (b). Therefore, we recommend rewording the definition to ‘An entity’s obligation to meet both of the following’ to clarify that an entity should consider the two obligations specified in the requirements (a) and (b) in order to determine whether the definition is met. We also recommend that an illustrative example should be added to the standard.

Yours faithfully,

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