

Comments on Exposure Draft of Ind AS 117 - Insurance Contracts

January 24, 2021

The Secretary,
Accounting Standards Board,
The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg, New Delhi – 110002.

Subject: Comments on Exposure Draft of Indian Accounting Standard (Ind AS) 117

Dear Sir/Madam,

This is with respect to the exposure draft of Ind AS 117 – Insurance Contracts released by The Institute of Chartered Accountants of India (ICAI) on December 24, 2020 whereby comments were sought latest by January 24, 2021.

We hereby attach our comments appended as **Annexure I**.

For ICICI Prudential Life Insurance Co. Ltd.

Satyan Jambunathan
Chief Financial Officer

Asha Murali
Executive Vice President (Actuarial)

Annexure I

1.1 Reference to paragraph B96(a) in paragraph 104(b):

The paragraph 104 of IFRS 17 is as follows:

An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to services, if applicable:

(a) changes that relate to future service, applying paragraphs B96-B118, showing separately:

(i)...

(b) changes that relates to current service, i.e.:

(i)...

(iii) experience adjustments (see paragraphs B97(c) and B113(a)), excluding amounts relating to the risk adjustment for non- financial risk included in (ii).

The exposure draft released by ICAI has modified following paragraph 104(b) of Ind AS 117 as follows:

(a) changes that relate to future service, applying paragraphs B96-B118, showing separately:

(i)...

(b) changes that relates to current service, i.e.:

(i)...

*(iii) experience adjustments (see paragraphs **B96(a)**, B97(c) and B(113a)), excluding amounts relating to the risk adjustment for non-financial risk included in (ii).*

We observed that reference to paragraph B96(a) in 104b(iii) is in addition to references given in IFRS 17.

Comment: We request the Accounting Standard Board to make the language consistent with IFRS 17 since para B96(a) deals with experience adjustment related to future service and paragraph B97(c) specifically provides for exclusion of experience adjustment described in paragraph B96(a).

1.2 Reference to para C17A

Paragraph C5B is amended in line with IFRS 17. However, we observed that reference to paragraph C17A is missing in paragraph C5B(a):

If, and only if, it is impracticable for any entity to apply paragraph C4(aa) for an asset for insurance acquisition cash flows, the entity shall apply the following approaches to measure the asset for insurance acquisition cash flows:

(a) the modified retrospective approach in paragraphs C14B- C14D, subject to paragraph C6(a); or

(b).....

The same paragraph in Appendix C of IFRS 17 read as: "*the modified retrospective in paragraphs C14B-C14D and C17A, subject to paragraph C6(a);*

Comment: We submit that the reference to paragraph C17A needs to be included to apply correct reference to contracts with direct participation features.

1.3 Amendments to Appendix C – Transition

Paragraph C24A is amended in line with IFRS 17. However, we observed that there appears to be small error:

As per Ind AS 117," in applying the fair value approach for an asset for insurance acquisition cash flows (see paragraph C5B(b)), at the transition date, an entity shall determine an asset for insurance acquisition cash flows at an amount equal to the insurance acquisition cash flows the entity would incur at the transition date for the rights to obtain:

(a)...

*(b) future insurance contracts that are renewals of insurance contracts recognised at the **date of transaction** and insurance contracts described in (a); and*

*(c) future insurance contracts, other than those in (b), after **the date of transaction without** paying again insurance acquisition cash flows the **acquiree** has already paid that are directly attributable to the related portfolio of insurance contracts.*

The same paragraph in paragraph 24A of IFRS 17 read as:

(a).....

*(b) future insurance contracts that are renewals of insurance contracts recognised at the **transition date** and insurance contracts described in (a); and*

*(c) future insurance contracts, other than those in (b), after the **transition date** without paying again insurance acquisition cash flows the **entity** has already paid that are directly attributable to the related portfolio of insurance contracts.*

Comment: We submit that the error as highlighted above needs to be corrected to apply correct reference of transition date and maintaining consistency with global reporting standard.

1.4 Amendments to Ind AS 40

Ind AS 40, Investment Property requires entity to follow cost model with disclosures of fair value for Investment Property whereas IAS 40, Investment Property (IFRS equivalent standard) allows entity to follow either cost model or fair value model.

The difference in the standard requirements stated above is due to the deletion of the paragraphs pertaining to fair value measurement in Ind AS 40. The entities issuing insurance contracts hold investment property backing liabilities that pay a return linked directly to the fair value of, or returns from, specified assets including that investment property. The cost model approach would defeat the purpose of holding investment property.

This has also been brought out in the report dated December 29, 2016 submitted by Implementation Group on Ind AS in Insurance Sector in India constituted by Insurance Regulatory and Development Authority of India (IRDAI).

Comment: We request the Accounting Standards Board to re-visit Ind AS 40, and permit fair value measurement for entities issuing contracts within the scope of Ind AS 117.

1.5 Amendments to Ind AS 105

Exposure draft of Ind AS 117, Insurance Contracts has deleted the para 5(f) of Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations, with a rationale that the same is deleted in IFRS 5. However, the paragraph 5(f) has been amended in IFRS 17 as follows:

"The measurement provisions of this IFRS [footnote omitted] do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group:

(a) ...

(f) ~~contractual rights under insurance contracts as defined in IFRS 4~~ groups of contracts within the scope of IFRS 17 Insurance Contracts."

Comment: We recommend that the paragraph 5(f) in Ind AS 105 to be amended as follows:

"The measurement provisions of this Ind AS do not apply to the following assets, which are covered by the Ind ASs listed, either as individual assets or as part of a disposal group:

(a) ...

(f) ~~contractual rights under insurance contracts as defined in Ind AS 104~~ groups of contracts within the scope of Ind AS 117 Insurance Contracts.

Appendix 1 of Ind AS 105:

~~"7 The following paragraph number appear as 'Deleted' in IFRS 5. In order to maintain consistency with paragraph numbers of IFRS 5, the paragraph numbers are retained in Ind AS 103:~~

~~(a) Paragraph 5(f)" [To Delete]~~

1.6 Amendments to Ind AS 32

As per Appendix D of Ind AS 117, certain paragraphs of Ind AS 32 were amended in line with changes mentioned in IFRS 17.

However, we observed there appears to be a small error in para 5(d)(ii) of Ind AS 32:
"...Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies Ind AS 109 in recognising and measuring the contracts, but shall apply Ind AS ~~104~~ 117 if the issuer elects, in accordance with paragraph ~~47(e)~~4(d) of Ind AS 117~~104~~, to apply Ind AS 117~~104~~ in recognising and measuring them.."

The same paragraph in Appendix D of IFRS 17 reads as: *"...Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply ~~IFRS 4~~IFRS 17 if the issuer elects, in accordance with paragraph ~~4(d)~~ of ~~IFRS 4~~ 7(e) of IFRS 17, to apply ~~IFRS 4~~IFRS 17 in recognising and measuring them."*

Comment: We submit that the error as highlighted above needs to be corrected to apply correct reference of paragraph 7(e) of Ind AS 117 instead of paragraph 47(e).

1.7 Reference to IAS 26

We observed that the text *"(see IAS 26 Accounting and Reporting by Retirement Benefit Plans)"* which was included in the original standard IFRS 17 in paragraph 7 (b) was removed from Ind AS 117 considering that equivalent Ind AS 26 has not been notified.

Comment: We suggest the Accounting Standards Board to consider publishing the same in order to maintain consistency with global reporting standard. Alternatively, the scope of IAS 26 can be included in paragraph 7(b) of Ind AS 117 to clearly spell out exclusions of Ind AS 117 and avoid any confusion.

1.8 Reference to supporting materials

The International Accounting Standards Board (IASB) in its press release dated May 18, 2017 published IFRS 17 together with illustrative examples and an explanation of the Board's basis for conclusions. Apart from this, other materials accompanying the standard included:

- Effects Analysis – which outlines in detail the expected costs and benefits of the new Standard;
- Project Summary – providing an overview of the project to develop the new insurance contracts Standard; and
- Feedback Statement – summarizing the feedback received to the different consultations undertaken as part of the project.
- Any notes published by the Transition Resource Group (TRG) formed by the IASB

All the documents together helps the user to implement new standard with proper understanding of underlying principles and thought process.

Comment: We request the Accounting Standards Board, to include links of the supporting documents published by IASB in the Ind AS 117.