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News

Discussion

MFRS News

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MFRS News is your monthly update on all things relating to Malaysian Financial Reporting Standards. We'll bring you up to speed on topical issues, provide comment and points of view and give you a summary of any significant developments.

Proposed amendments to MFRS 17 'Insurance contracts'

The IASB (equivalent to MASB) has published an Exposure draft (ED) 'Amendments to MFRS 17'. The amendments are a response to challenges and concerns raised by stakeholders as they implement MFRS 17.

The following table summarises the proposed amendments in the ED:

Topic	Proposed amendment
Scope exclusions	The ED proposes that an entity would be required to exclude from the scope of MFRS 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. If not excluded from the scope of MFRS 17 through the scope exclusions, the ED proposes that an entity would choose to apply MFRS 17 or MFRS 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.

'credit cards that provide insurance coverage for purchases made'

Topic	Proposed amendment
Expected recovery of insurance acquisition cash flows 'avoids the presentation of insurance contracts as loss making on initial recognition'	The amendments propose that an entity: • 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 • recognise as an asset insurance acquisition cash flows paid before the group of insurance contracts to which they are allocated is recognised • assess the recoverability of an asset for insurance acquisition cash flows if facts and circumstances indicate the asset may be impaired.
Contractual service margin attributable to investment-return service and investment-related service	The amendments: • 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 • specify criteria for when contracts may provide an investment-return service • 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 • propose 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. In addition, propose 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.
Reinsurance contracts held — recovery of losses on underlying insurance contracts	The ED 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: • the loss recognised on the group of underlying insurance contracts • 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.
Presentation in the statement of financial position	The proposed amendment 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.
Applicability of the risk mitigation option	The proposed amendment 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.
Effective date of MFRS 17 and the MFRS 9 Financial Instruments temporary exemption	The proposals defer the effective date of MFRS 17 by one year from annual reporting periods beginning on or after 2021 to annual reporting periods beginning on or after 2022. The proposals also extend the temporary exemption (included in MFRS 4) from MFRS 9 by one year so that an entity applying the exemption would be required to apply MFRS 9 for annual reporting periods beginning on or after 1 January 2022.

Topic	Proposed amendment
Transition modifications and reliefs	The amendments: • propose 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. They also propose that an entity applying the fair value approach could choose to classify such a liability as a liability for incurred claims • 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 • propose that an entity that can apply MFRS 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.
Minor amendments	Minor amendments have been proposed where the drafting of MFRS 17 does not achieve the Board's intended outcome. These are on the following topics: • Scope and investment contracts with discretionary participation features • Recognition of contracts within a group • Business combinations outside the scope of MFRS 3 • Adjusting the loss component for changes in the risk adjustment for non-financial risk • Disclosure of investment components excluded from insurance revenue and insurance service expenses • Risk adjustment for non-financial risk in discourse requirements • Disclosure of sensitivity analysis • Definition of an investment component • Excluding changes relating to the time value of money and assumptions that relate to financial risk from changes in the carrying amount of the contractual service margin • Changes in the risk adjustment for non-financial risk • Use of the risk mitigation option • Excluding changes from cash flows relating to loans to policyholders from revenue • Treatment of changes in underlying items • Amendment to MFRS 3 'Business Combinations' • Amendment to MFRS 7 'Financial Instruments: Disclosures', MFRS 9 'Financial Instruments' and MFRS 132 'Financial Instruments: Presentation'.

The amendments would be applicable for annual reporting periods beginning on or after 1 January 2022.

Contact us

We hope you find the information in this article helpful in giving you some detail into aspects of MFRS 16. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.com.my to find your local member firm.