



## **Asia-Pacific Financial Forum (APFF)**

# **APFF work on long-term investments and implications of IFRS 17 in the Asia Pacific region**

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**Sherpa, APFF Insurance and Retirement Income Work Stream**

**23 October 2018, Singapore**

# Diversity in use of IFRS around the globe

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*(United States)*



*(France)*



*(Germany)*



*(Switzerland)*



*(Italy)*



*(United Kingdom)*



*(Australia)*



*(Canada)*



*(Mexico)*



*(Chile)*



*(Russia)*



*(Kenya)*



*(Egypt)*



*(Singapore)*



*(Malaysia)*



*(Thailand)*



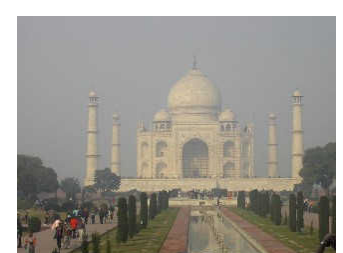
*(China)*



*(Korea)*



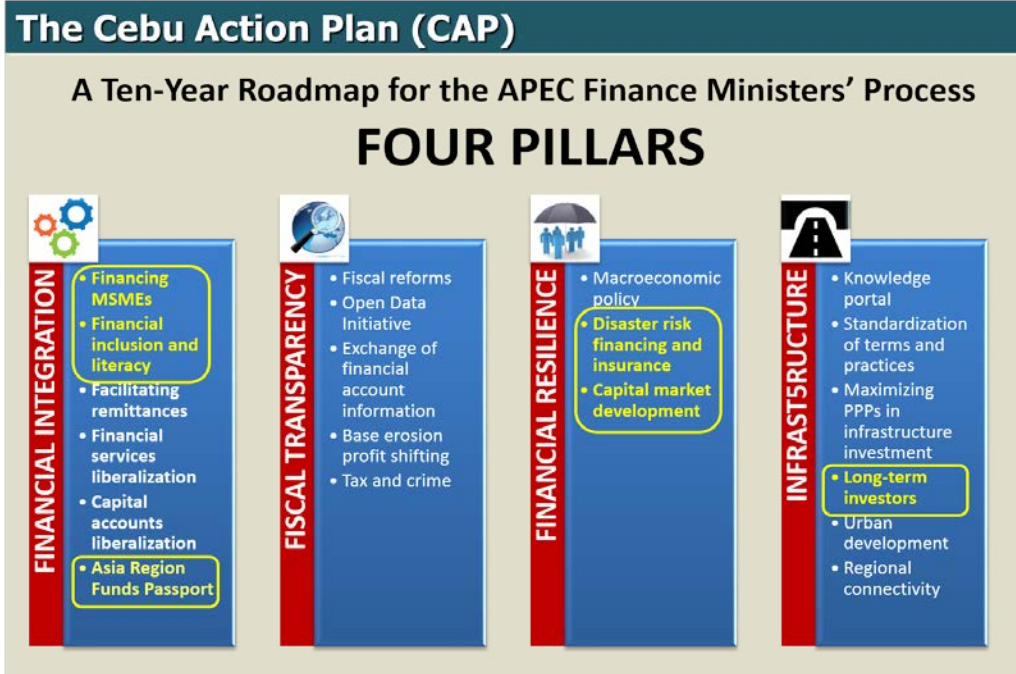
*(Japan)*



*(India)*

# What is APFF?

- APFF is a regional platform for **collaboration among public sector, private sector and multilateral institutions** to help accelerate the development and integration of financial markets and services in the APEC region.
- APFF is an official policy initiative under the **APEC Finance Ministers' Process**. It has been tasked to support the implementation of the Ministers' **Cebu Action Plan** (a 10-year roadmap for the development and integration of financial markets in the region).
- The management of APFF has been entrusted by the Finance Ministers to the private sector through the **APEC Business Advisory Council (ABAC)**, which reports its progress to APEC senior finance officials and ministers regularly throughout the year.





# 2018 APEC Joint Finance Ministerial Statement

- 2018 APEC JOINT FINANCE MINISTERIAL STATEMENT was issued on 17 October 2018 in Port Moresby, Papua New Guinea.
- APEC 2018 theme, *Harnessing Inclusive Opportunities, Embracing the Digital Future*, we discussed the economic and financial outlook that our economies face and shared views on appropriate policy actions". Particularly, it mentions, "We are committed to use all monetary, fiscal and structural policy tools, individually and collectively to the extent possible, to achieve **strong, sustainable, balanced and inclusive growth**.
- Topics mentioned in the Joint Statement:
  - Global and Regional Economy
  - Accelerating **Infrastructure Development and Financing**
  - Advancing **Financial Inclusion**
  - Fostering International Tax Cooperation and Transparency
  - Implementing the **Cebu Action Plan**
  - **Disaster Risk Financing and Insurance**



(Photo source: APEC)

# 2018 APEC Joint Finance Ministerial Statement (*cont.*)

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## *Accelerating Infrastructure Development and Financing*

- Infrastructure is crucial to lifting productivity, enhancing connectivity and competitiveness, creating jobs and strengthening inclusive growth.
  - The Asia-Pacific region faces a significant infrastructure financing deficit with data from the Global Infrastructure Hub (GIH) estimating that investment needs are expected to average US\$2.1 trillion per year over the 2020-2025 period.
- This large and growing infrastructure investment need can be addressed by **diversifying the available sources of long-term finance and fostering private sector involvement**, including the creation of:
  - enabling conditions for attracting investment,
  - generating pipelines of 'bankable' infrastructure projects and
  - developing financing structures capable of attracting long-term institutional investor capital.
- Stressing the importance of quality infrastructure investment, we encourage capacity-building programs to improve economies' **project evaluation processes, regulatory and procurement environments, and project preparation and financing capabilities.**



(Photo source: APEC)



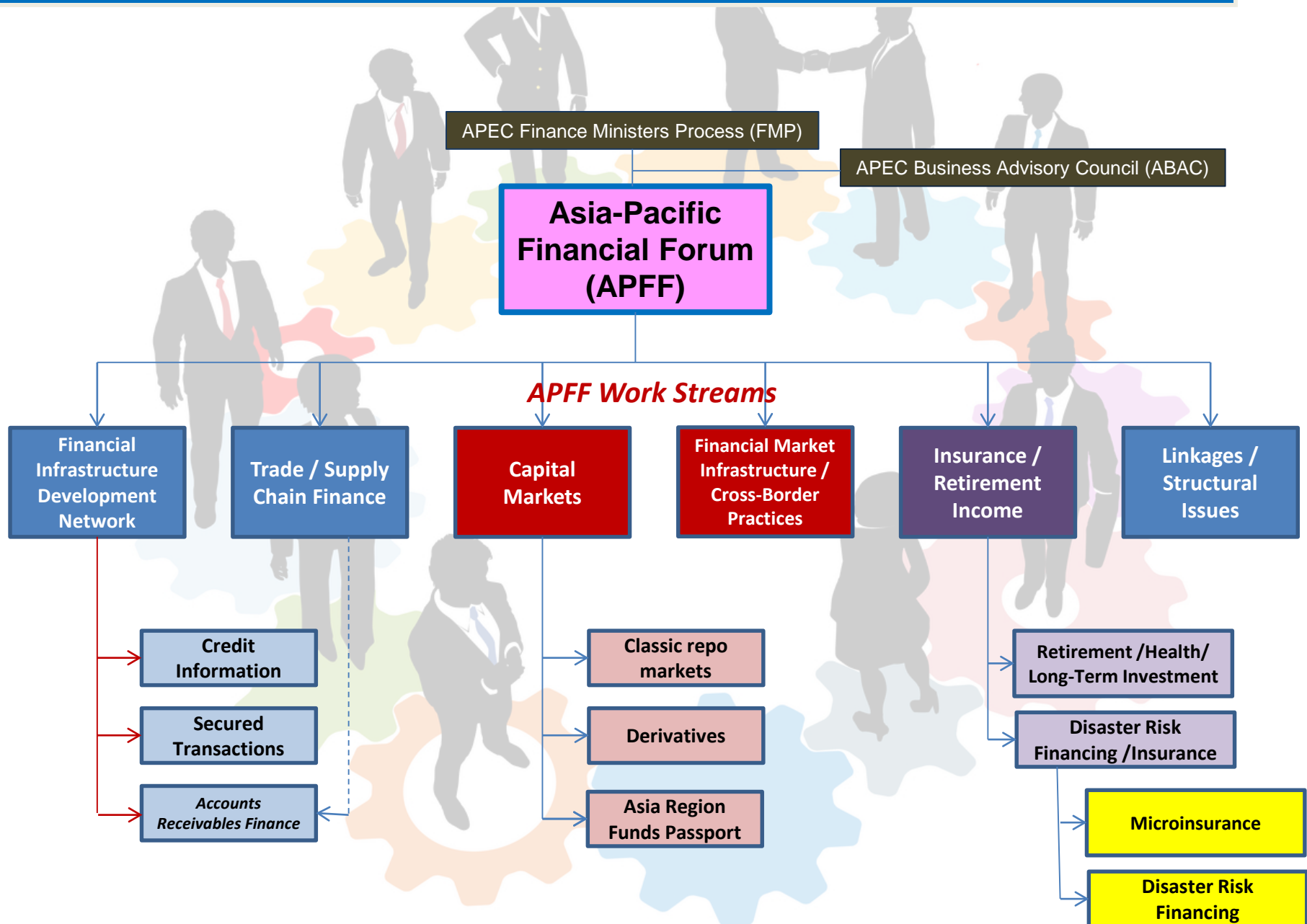
**Over 150 organizations**



**Over 300 individual experts**

# The APFF Structure

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# APFF Insurance and Retirement Income WS [Sherpa Makoto Okubo]

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**CAP**

**4E Long - Term Investment  
in Infrastructure**

**3B Disaster Risk Financing  
and Insurance**

**WG**

**Insurance and Pension Group**

[Sherpa Makoto Okubo /  
Vice Sherpa Paul F. Lynch]

**Disaster risk financing and  
Insurance Working Group**

[Sherpa Masaaki Nagamura]

**SG**

**Retirement and Protection**

[led by Vanessa Wang]

**Infrastructure and Investment**

[led by Brian Murray]

**in collaboration with APFF CMWS and APIP**

**Regulation and Accounting**

[led by Makoto Okubo]

**Innovative Health Financing Mechanism**

[led by Ryan MacFarlane]

**in collaboration with LSIF**

**Islamic Infrastructure Investment  
Platform (I3P)**

**Disaster Risk Financing**

[led by Masaaki Nagamura]

**Micro-Insurance**

[led by Antonis Malagardis]

**in collaboration with  
Financial Inclusion Group**



## Financing the Expansion of the Region's Infrastructure

- Development of Bankable Infrastructure PPP Pipeline
- Advancing The Islamic Infrastructure Investment Platform (I3P)
- Expanding the Region's Long-Term Investors Base
  - **Infrastructure Investment:** Continue dialogue with policymakers and authorities to expand quality infrastructure investments by insurers and pension funds, and examine possible improvement including **financial vehicles, sustainable investing** and **regulatory changes**.
  - **Regulation and accounting:** Continuous outreach with policymakers, regulatory authorities and accounting standards setters, focusing on the adoption of solvency and accounting regimes that do not discourage insurers from engaging in long-term business and making long-term investment in infrastructure and capital markets. (i.e. **IFRS17** and **IFRS9**, including its impact on **solvency assessment**)
- Developing Deep and Liquid Capital Markets

## Expanding the Region's Long-Term Investor Base

- Promoting insurers' and pension funds' roles to support **sustainable, resilient and inclusive** growth and development of the Asia-Pacific region
- **Triple wins** thru Retirement income and long-term investment
  - **Consumers** receive high and stable returns for long-term savings
  - **The financial sector** is able to access deeper capital markets for infrastructure investment.
  - **Governments** obtain relief from large contingent fiscal liabilities
- **Triple gaps** to address to achieve the above objective
  - **Pension/Protection Gap**
  - **Infrastructure/Investment Gap**
  - **Regulatory/Accounting Gap**

## 1. Bank-centric regulations

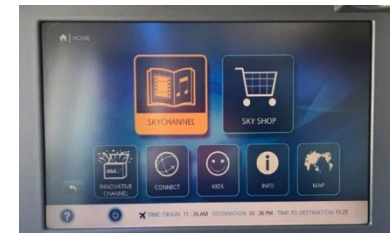
- ❑ *Standards should reflect long-term nature of insurers*
- ❑ *Insurers should be allowed to invest in assets with **long-term growth opportunities**, such as infrastructure investments*



(Photo – Beijing, China)

## 2. Short-term oriented economic regime

- ❑ *Economic regime should have a long-term vision*
- ❑ *Insurers and investors should be encouraged to make decisions to **be good in the long-run rather than looking good at a given moment***



(Photo – All Nippon Airways)

## 3. “One-size-fits-all” models

- ❑ *Standards should be principle-based and aim to achieve comparable outcome by taking into account **the diversity in different jurisdictions***



(Photo: New York, USA)

# Accounting issues

## ■ Volatility in the balance sheet

- Short-term fluctuation should be avoided
- Assets-liabilities interaction should be reflected for a wide range of products sold in the region
- Discount rate should reflect the business



(Photo: Salsa @ Tokyo, Japan)

## ■ Volatility in the income statement

- The optional use of OCI for insurance liabilities and corresponding assets
- and items of income and expenses presented in OCI should be permitted to be recycled
- The treatment of changes in estimated cash flows and that of discount rates should be consistent

Keep Recycling  
To Protect  
The Environment!



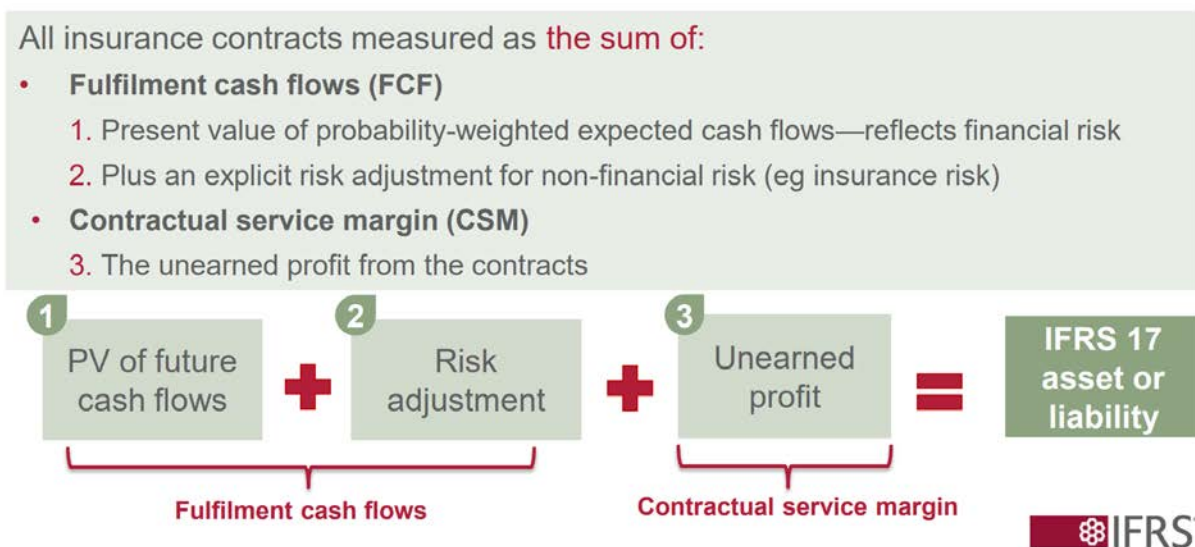
## ■ Other issues

- Standards should reflect how an entity conducts its business in terms of (a) the unit of account, (b) the selection of a measurement basis, (c) presentation and disclosure
- Flexibility should be given in adopting transition requirements (i.e. prospective approach)



# IASB issued IFRS17

- On May 18 2017, the IASB published a new standard, IFRS17 (Insurance Contracts), which would require fulfillment value and provide consistent and principle-based accounting requirements for insurance contracts.
- IFRS17 supersedes IFRS4 and its effective for periods beginning on and after 1 January 2021, with earlier adoption permitted if both IFRS15 (Revenue from contracts with customers) and IFRS9 (financial instruments) have also been applied.



- IFRS17 allows some alternative approaches, apart from General Measurement Model (GMM), depending on the types of contract:
  - Variable Fee Approach (VFA)
  - Premium Allocation Approach (PAA)

# Issues on IFRS17 implementation

- APFF held meetings and dialogues and as a result observed some improvements in the final IFRS17 from the previous versions including:
  - Permission of optional OCI
  - Introduction of VFA
  - Alternative approach for CSM at transition
- There are some technical and practical aspects yet to be addressed. APFF intends to be involved in the interpretation and implementation process in collaboration with other bodies (i.e. Technical Resource Group)
- Remaining accounting issues include:
  - Unit of account (Level of aggregation)
  - Scope for “variable fee approach”
  - Transition
- A number of jurisdictions may use IFRS17 as basis for solvency assessments and in such cases impact of IFRS17 would go beyond financial reporting (i.e. implications on ICS?). Areas which may need attention include:
  - Contract Services Margin (CSM)
  - Scope and definition of insurance
  - Grouping of contracts and separation of components
  - Cash flows and discount rate
  - Reinsurance contracts

# Topics for Transition Resource Group (TRG)

## ■ February 2018

- ☐ Separation of insurance contracts
- ☐ Contract boundary for contracts repriced at portfolio level
- ☐ Contract boundary – reinsurance held
- ☐ Acquisition costs
- ☐ Coverage units
- ☐ Fair value at transition – acquisition costs

## ■ May 2018

- ☐ Combining insurance contracts
- ☐ Determining risk adjustments in a group
- ☐ Contract boundary – right to reassess risks and exercise of options
- ☐ Boundary of reinsurance contracts held with repricing mechanisms
- ☐ Determining the quantity of benefits for identifying coverage units
- ☐ Implementation challenges

## ■ September 2018

- ☐ Insurance risk consequent to an incurred claim
- ☐ Determining discount rates using a top-down approach
- ☐ Commissions and reinstatement premiums in reinsurance contracts issued
- ☐ Premium experience adjustments related to current or past service
- ☐ Cash flows outside the contract boundary at initial recognition
- ☐ Recovery of insurance acquisitions cash flows
- ☐ Premium waivers
- ☐ Group insurance policies
- ☐ Industry pools managed by an association
- ☐ Annual cohorts for contracts that share in the return of a specified pool of underwriting items
- ☐ Reporting on other questions submitted

## ■ December 2018

# Remaining issues for discussions (examples in Europe)

## ■ CFO Forum (3 July 2018)

### Measurement Issues

- ☐ Acquisition cash flows
- ☐ CSM amortisation
- ☐ Discount rates
- ☐ Multi-component contracts
- ☐ Reinsurance
- ☐ Scope of hedging adjustment
- ☐ Scope of the VFA vs GMM and PAA
- ☐ Transition

### Operational complexity

- ☐ Business combinations
- ☐ Level of aggregation
- ☐ Presentational issues

### Other implementation challenges

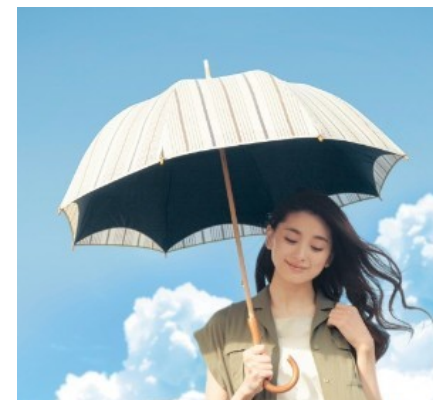
- ☐ Pressure on implementation timeline

## ■ EFRAG (3 September 2018)

- ☐ Acquisition costs
- ☐ CSM amortisation
- ☐ Reinsurance
- ☐ Transition
- ☐ Annual cohorts
- ☐ Balance sheet presentation

## ■ Insurance Europe (3 October 2018)

- ☐ IFRS17 must be re-opened to address the 11 issues identified during the testing
- ☐ Implementation needs to be delayed by two years



(Source: Bellemaison.jp)



# IFRS17 status in the Asia Pacific



Australia: IFRS included in Australian Accounting Standards



Canada: IFRS adopted in Canadian Accounting Standards



Chile: IFRS generally adopted, but regulatory authority makes adjustments for insurers. Ongoing discussion on IFRS17



China: Local GAAP is usually converged to IFRS. Ongoing discussion on IFRS17



Chinese Taipei: Local GAAP is usually converged to IFRS. Effective date for IFRS17 will likely be 2024



Hong Kong: IFRS17 endorsed and adopted into Hong Kong Financial Reporting Standards



Indonesia: Local GAAP is usually converged to IFRS. Effective date for IFRS17 will likely be 1 or 2 years after 2021













Japan: IFRS permitted for consolidated statement for publicly traded companies. JMIS (Japan Modified International Standards) to be issued based on IFRS with minimal changes after an endorsement process.



Korea: IFRS adopted in Korean Financial Reporting Standards

## IFRS17 status in the Asia Pacific (*cont.*)

-  Malaysia: IFRS17 endorsed by Malaysian Accounting Standards Board
-  Mexico: IFRS generally adopted, but regulatory authority makes adjustments for insurers. Ongoing discussion on IFRS17
-  New Zealand: NZ IFRS issued as substantially identical to IFRS. IFRS17 ratified by the New Zealand External Reporting Board
-  Peru: IFRS generally adopted, but regulatory authority makes adjustments for insurers. Ongoing discussion on IFRS17
-  Philippines: Local GAAP is usually converged to IFRS. Ongoing discussion on IFRS17
-  Russia: IFRS endorsed by the Russian Government
-  Singapore: IFRS17 endorsed and adopted into Singapore Financial Reporting Standards
-  Thailand: Local GAAP is usually converged to IFRS. Effective date for IFRS17 will likely be 2022
-  United States: Domestic public companies must use US GAAP. Target improvements for non-participating long-duration contracts
-  Vietnam: IFRS is not permitted, but local GAAP is converged with some changes to IFRS

# Some words from Taoism - yin and yang

- **Have a holistic vision**
- **Be aware that the world is cyclical**
- **Don't go to the extreme, otherwise you will fall**
  - Bring the balance of yin and yang to the universe
- **In order to manage the world, you should control yourself**
  - In order to implement international standards, you should first know your own country



(Photo – Tao Garden, Chang Mai, Thailand)

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ASIA-PACIFIC

## ABAC submitted 2016 APFF Progress Report to the APEC Finance Ministers, August 31, 2016

September 5, 2016

ABAC submitted the 2016 Progress Report of the APFF (Asia Pacific Financial Forum) to APEC Finance Ministers. This Progress Report covers the following areas to provide information and high-level recommendations to support Cebu Action Plan in the Asia Pacific: Advancing...

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### Recent Posts

- ABAC submitted 2016 APFF Progress Report to the APEC Finance Ministers, August 31, 2016 September 5, 2016
- Mack participated in the NAIC Asia Pacific International Forum, and Summer National Meeting in San Diego, August 24-26 August 29, 2016
- Mack participated in the APFF Roundtable and the ABAC meetings in Shenzhen, August 1-4, 2016 August 28, 2016

ASIA-PACIFIC

## Mack participated in the NAIC Asia Pacific International Forum, and Summer National Meeting in San Diego, August 24-26

August 29, 2016

The National Association of Insurance Commissioners (NAIC) hosted the Third Annual Asia-Pacific International Forum on August 24-25.

NAIC NEWS RELEASE: NAIC HOSTS THIRD ANNUAL ASIA-PACIFIC INTERNATIONAL FORUM

Mack made remarks to share the APFF activities, issues and recommendations during the panels on Retirement Security, FinTech, and Cyber Security.

### Members Only

- APFF Insurance and Retirement Income Workstream

### Resources

- APEC Business Advisory Council(ABAC)
  - APFF Page
- National Center for APEC (NCAPEC)

For more details on the APFF, visit [mackglobe.com](http://mackglobe.com) or email

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