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## **PART A      OVERVIEW**

### **1.      Introduction**

- 1.1      The Guidelines address requirements on the application of financial reporting standards and information to be disclosed in the financial statements of insurers.
- 1.2      For statistical and risk-based capital reporting under the Insurance Companies Statistical System (ICSS), insurers shall refer to the *Guidelines for Submission of Monthly/Quarterly/Annual Financial Statements*.

### **2.      Applicability**

- 2.1      The Guidelines are applicable to all insurers licensed under the Insurance Act 1996 (IA) in the preparation of an insurer's own and consolidated financial statements. In these Guidelines, insurers include professional reinsurers licensed under the IA.

### **3.      Legal Provision**

- 3.1      The Guidelines are issued pursuant to sections 87, 90, and 95 of the IA.

### **4.      Effective Date**

- 4.1      The Guidelines are effective for financial years beginning on and after 1 January 2012.

## **PART B      REGULATORY REQUIREMENTS**

### **5.      Compliance with Accounting Standards**

- 5.1 For the purpose of section 90 of the IA, financial reporting standards approved by the Malaysian Accounting Standards Board (MASB) are deemed to be the accounting standards approved by the Bank.
- 5.2 Insurers shall ensure that financial statements are prepared in accordance with the financial reporting standards approved by MASB subject to any accounting requirements specified in these Guidelines.
- 5.3 The board of directors is responsible to ensure that the financial statements are drawn up so as to give a true and fair view of the state of affairs and of the results of the insurer. This is consistent with the fiduciary and statutory duties placed on the board as persons responsible for managing the affairs of the insurer. Hence, the board shall be satisfied that a sound financial reporting structure is in place to ensure the integrity and credibility of financial statements.
- 5.4 Where a specific accounting requirement or additional disclosure is prescribed in these Guidelines for prudential reasons, insurers shall comply with the prescribed requirement and disclose a statement to that effect in the financial statements.

### **6.      Specific Accounting Requirements**

- 6.1 For the financial statements and financial reports referred to under Part C of these Guidelines, the presentation currency shall be in Ringgit Malaysia.
- 6.2 Insurers are required to inform the Bank, in writing and at least 3 months in advance, of the intention to implement a change in accounting policy under paragraph 22 of MFRS 4 *Insurance Contracts*.
- 6.3 Insurers shall report on the assets and liabilities of the life insurance fund separately from the other assets and liabilities of the insurers.

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- 6.4 Life insurance contract liabilities with discretionary participating features (including actuarial liabilities, unallocated surplus and fair value/revaluation reserves, if any, of the life fund) shall be presented as a *liability* in the insurers' statement of financial position.
- 6.5 Investment-linked contracts shall be reported as insurance contracts, consistent with section 7 of the IA and the requirements of the *Guidelines on Investment-Linked Insurance/Takaful Business*.
- 6.6 For life insurers, acquisition costs<sup>1</sup> shall be accounted for as and when they are incurred and these costs shall not be deferred.
- 6.7 For the purpose of complying with the requirements of a *liability adequacy test* under MFRS 4 *Insurance Contracts*, insurers are deemed to comply if the valuation methods used are in accordance with Appendix VI or Appendix VII of the *Risk-Based Capital Framework for Insurers (Revised – Version 2.0)*.
- 6.8 For the purpose of complying with paragraph 58 of MFRS 139 *Financial Instruments: Recognition and Measurement* and paragraph 20 (a) of MFRS 4 *Insurance Contracts*, *objective evidence of impairment* is deemed to exist where the principal or interest/profit or both for loans/receivables<sup>2</sup> that are individually assessed for impairment, is past due for more than 90 days or 3 months. Impairment provisions for loans/receivables that meet this condition shall be determined in accordance with MFRS 139 or MFRS 4. In the case of treaty reinsurance business, the date the statement is provided to reinsurer shall be deemed as the 'date due' for the purpose of complying with this paragraph. This however, does not preclude insurer from assessing the accounts earlier for impairment should these accounts exhibit weaknesses<sup>3</sup> that render the assessment appropriate to the risks associated with these accounts.

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<sup>1</sup> Acquisition costs are commissions and agency related expenses incurred in securing premiums on life insurance policies.

<sup>2</sup> Includes amount due from reinsurers and outstanding premiums.

<sup>3</sup> Insurers shall also consider the loss events listed under paragraph 59 of MFRS 139 *Financial Instruments: Recognition and Measurement*.

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6.9 For the purpose of disclosures of non-compliance with externally imposed capital requirements, the capital level prescribed under paragraph 22.1 of Part F of the *Risk-Based Capital Framework for Insurers (Revised – Version 2.0)* shall apply.

## **7. Requirements on the Use of Fair Value Option for Financial Instruments**

- 7.1 MFRS 139 specifies that a financial instrument shall be classified as *financial asset or financial liability at fair value through profit or loss*<sup>4</sup> if the financial instrument is either classified as *held for trading*, or upon initial recognition it is *designated* as at fair value through profit or loss (thereafter referred as ‘fair value option’). The requirements in this section refer to financial instruments designated at fair value under the fair value option.
- 7.2 Insurers applying the fair value option for portfolios of financial assets and liabilities and individual financial asset and liability shall do so in a manner that is consistent with both applicable financial reporting standards and the insurer’s risk management and controls framework.
- 7.3 Insurers should ensure that the effect of the use of the fair value option is understood by the board and its use is managed, monitored and reported to the senior management and the board in an effective and transparent manner. Insurers are required to provide a one-time notification to the Bank of the intention to apply the fair value option and the scope of the fair value application on financial instruments as approved by the board, at least 1 month before the option is first applied.
- 7.4 The use of the fair value option must be supported by a sound governance structure, risk management systems and related risk management policies and procedures which ensure that:
- (a) there is an appropriate segregation of duties between those responsible for fair values used in the financial statements and those in the risk-taking functions;
  - (b) the use of the fair value option is consistent with the way the insurer measures and manages risk;

<sup>4</sup> Refer to sub-paragraph (b) of the *Definitions of Four Categories of Financial Instruments* under paragraph 9 of MFRS 139 *Financial Instruments: Recognition and Measurement*.

- (c) the circumstances and conditions under which the fair value option is exercised by the insurer are within the defined parameters and risk limits established and approved by its board for the use of the fair value option;
- (d) appropriate valuation methods are being used;
- (e) fair values are reliable for instruments in the fair value option category;
- (f) risk management and control policies, as approved by the board, relating to the use of the fair value option and related valuation methodologies are consistently applied and complied with; and
- (g) appropriate information is provided periodically to the board or the audit committee on the use of the fair value option (in particular where the fair value option is applied to illiquid instruments) and its impact on the insurer's financial condition and performance. Documented procedures should be in place for the escalation of issues and exceptions to the board or the audit committee.

7.5 Insurers shall not apply the fair value option to instruments where reliable estimates of fair values cannot be made or where the valuation methodology has proven to be unreliable.

7.6 Insurers should also establish procedures for approving the use of the fair value option for new items, products or transactions, as well as the related controls. When determining whether to apply the fair value option to a particular new instrument or class of instruments, an insurer should ascertain whether reliable fair values can be determined for those instruments. Existing risk management policies, procedures, and controls (including those related to valuation) may need to be revised or expanded to address the characteristics and risks of the new items, products or transactions to which the fair value option will be applied. New approvals must be consistent with the insurer's established parameters for using the fair value option.

7.7 Financial assets and liabilities designated at fair value under the fair value option should be captured in the insurer's risk measurement systems. The resulting exposure amounts should be included in internal reports that compare actual overall exposure to approved overall risk management limits.

7.8 Insurers should ensure sufficient documentation to support the use of the fair value option. In particular, the policies for measurement and management of risk and

reliable valuation should be well documented and applied to individual (and portfolios of) financial assets and liabilities designated at fair value through profit and loss. Where insurers use supplementary risk management information that is not based on financial reporting principles (e.g. Value-at-Risk) for internal risk management purposes and significant differences arise between the measurement and management of risk and financial reporting, this should be properly documented and deliberated by the board or audit committee.

- 7.9 Insurers shall assign specific responsibility for the determination of fair values used in the financial statements to persons outside the risk-taking functions. Financial assets and liabilities designated at fair value under the fair value option should be subject to the same rigorous valuation policies and practices applicable to other financial assets and liabilities measured at fair value. However, when applying the fair value option to illiquid instruments, insurers should employ a more rigorous valuation process than is used for liquid instruments, including documenting the process for estimating fair value and uncertainties surrounding the valuations.
- 7.10 Where models are used (including changes to a valuation model) to value financial assets and liabilities designated at fair value under the fair value option, these should be verified by a qualified function that is independent of risk-taking activities as part of a regular cycle of model validation. The validation process should include an assessment of the stability of models used in terms of performance over a variety of conditions and back-testing of model outputs. Model validation should be performed at regular intervals (e.g. annually) with regular reporting to senior management and the board.
- 7.11 The use of the fair value option should be monitored by a function (e.g. the finance or control functions) that is independent of the risk-taking activities within the insurer. The function should undertake the review of accounting policies and practices to ensure consistency with applicable financial reporting standards. Testing of individual transactions should also be performed to verify compliance with approved policies for the use of the fair value option. An independent process should be in place for approving and monitoring valuation adjustments for consistency and appropriateness. The results of independent reviews performed (including price verification differences and valuation adjustments, and any changes to the method of

determining such adjustments) should be documented and reported to senior management.

- 7.12 Where fair value is a critical component of financial performance, insurers should establish a process for the review and reporting to senior management on profit or loss and the resulting impact on the overall financial condition at sufficiently frequent intervals during the financial reporting cycles (e.g. daily or weekly).
- 7.13 The appropriateness of an insurer's use of the fair value option, including the adequacy of the independent price verification procedures and controls, should be subject to a periodic review by internal audit. Insurers shall promptly address any deficiencies identified in the use of the fair value option by internal and external auditors.
- 7.14 The Bank may require insurers to submit supplemental information (including related risk management and valuation policies and practices) for the purpose of assessing the impact of the use of fair value option on risk, earnings and capital adequacy.
- 7.15 The Bank may also require any insurer to obtain an independent validation from an external auditor on the insurer's compliance with the expectations under these Guidelines. This may be exercised after taking into consideration the risk management systems, policies and procedures for the estimation of fair values or where the Bank has reason to believe that the expectations under these Guidelines have not been fully or satisfactorily met.

## **8. Requirements on Property Valuations**

- 8.1 Insurers that choose the fair value model for the measurement of investment properties shall comply with the fair value guidance provided in the applicable financial reporting standards.
- 8.2 For life insurers, the amount of surplus arising from fair value gains on investment properties of the life fund which may be distributed to policyholders shall be limited to **the lower of** 30% of the aggregate fair value gains (net of fair value losses) or 10% of the aggregate fair value of the investment properties.



8.3 Insurers are required to maintain appropriate information supporting the valuations for the Bank's review as and when required. In addition, the Bank may, at any time, require an independent professional valuer to validate material fair value changes or revaluations, the cost of which shall be borne by the insurer.

## 9. Minimum Disclosure Requirements

9.1 The requirements under this section refer specifically to disclosures which form part of the *financial statements* and do not deal with other disclosures provided by insurers as part of the Annual Report (e.g. Director's Report, Statement on Corporate Governance).

9.2 Insurers shall make disclosures in the financial statements in accordance with the requirements of the financial reporting standards, and include information specified under paragraphs 9.4 and 9.5 of these Guidelines.

9.3 Insurers shall comply with the following key principles on disclosure of information:

- (a) information should be timely and up-to-date, to avoid undue delays in disclosure which may affect the relevance of the information being disclosed;
- (b) the scope and content of information disclosed and the level of disaggregation and detail should be sufficient to provide comprehensive, meaningful<sup>5</sup> and relevant information;
- (c) adequate disclosures should be provided on areas of uncertainty, in particular information on key estimates and if sensitivity analysis is used, a discussion on the assumptions and the probabilities of the occurrence of various scenarios; and
- (d) disclosures should allow comparisons over time and between insurers.

9.4 The explanatory notes to be disclosed in the *annual* financial statements of insurers shall include the following information on:

- (a) analysis of the statement of financial position and statement of comprehensive income by funds;
- (b) insurance contract liabilities;

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<sup>5</sup> For example, given the heterogeneity of users of financial reporting, background information on the wider economic environment an insurer operates in is necessary to provide sufficient information to understand the context for specific disclosures. Information should also be useful to support decision-making by users.

- (c) investments;
- (d) reinsurance assets;
- (e) insurance receivables;
- (f) insurance payables;
- (g) impairment provisions;
- (h) total capital available;
- (i) gross and net earned premium;
- (j) gross and net benefits and claims;
- (k) investment income;
- (l) fees and commission income;
- (m) management expenses;
- (n) CEO and Directors' remuneration; and
- (o) commitments and contingencies.

For the purpose of the disclosure above, insurers may refer to the *Model Insurance Financial Statements* issued by the Malaysian Institute of Certified Public Accountants. With the exception of disclosures under items 9.4(h) and 9.4(n) which shall be made in accordance with the *Model Insurance Financial Statements*, an individual insurer shall determine and make appropriate adjustments to the model financial statements as required to comply with the principles in paragraph 9.3.

9.5 The explanatory notes to be disclosed in the *interim* financial reports of insurers shall include the following information on:

- (a) analysis of the statement of financial position and statement of comprehensive income by funds;
- (b) insurance contract liabilities;
- (c) investments;
- (d) reinsurance assets;
- (e) total capital available; and
- (f) commitments and contingencies.

The breakdown for the above explanatory notes shall be consistent with that disclosed for annual financial statements. In addition, insurers shall disclose items that are material to the understanding of the interim financial reports<sup>6</sup>.

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<sup>6</sup> Refer to paragraph 16 of MFRS 134 *Interim Financial Reporting*.

**PART C PUBLICATION REQUIREMENTS****10. Annual Financial Statements**

- 10.1 Pursuant to section 95(1)(a) of the IA, insurers shall publish the annual financial statements within 14 days after the laying of the accounts at the annual general meeting, in at least two local daily newspapers.
- 10.2 The two approved local daily newspapers, one of which shall be in the national language and the other in English, are:
- (a) Berita Harian or Utusan Malaysia; and
  - (b) The New Straits Times or The Star.
- 10.3 Insurers may publish an abridged format of the annual audited financial statements in the newspapers if, and only if, the full text of the annual audited financial statements is made available on the respective insurer's website. Insurers shall include a prominent note with the published abridged financial statements stating that the full set of the financial statements is available on the insurer's website, together with the address of the website<sup>7</sup>.
- 10.4 The abridged format of the financial statements (both the insurer's and consolidated financial statements) to be published in the newspapers shall, at a minimum, consist of the following:
- (a) a statement of financial position;
  - (b) a statement of comprehensive income;
  - (c) a statement of changes in equity;
  - (d) a statement of cash flows;
  - (e) Auditors' Report; and
  - (f) explanatory notes on:
    - (i) analysis of the statement of financial position and statement of comprehensive income by funds;

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<sup>7</sup> For insurers which do not have a website, the full set of the financial statements may be made available on the corporate website of the parent company provided that the note accompanying the abridged format of the financial statements states clearly that the full set of the financial statements is available on the parent company's corporate website with details provided on the exact URL that points to the webpage carrying the financial statements of the insurer.

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- (ii) insurance contract liabilities;
- (iii) investments<sup>8</sup>;
- (iv) total capital available; and
- (v) commitments and contingencies.

10.5 For the purpose of complying with the requirement to exhibit the audited financial statements under section 95(1)(b) of the IA, insurers may exhibit the abridged format of the financial statements at every office of the insurer.

10.6 A licensed local life reinsurer and a licensed foreign professional reinsurer are exempted from the requirements of section 95 of the IA.

## **11. Interim Financial Reports**

11.1 Insurers shall disclose interim financial reports' (both the insurer's and consolidated financial reports) prepared on a half-yearly basis. The interim financial reports shall be disclosed in their website<sup>9</sup> no later than 8 weeks after the close of the interim reporting period.

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<sup>8</sup> For example, financial instruments carried at fair value through profit or loss, available-for-sale and held-to-maturity.

<sup>9</sup> For insurers which do not have a website, the interim financial reports may be made available on the corporate website of its parent company.