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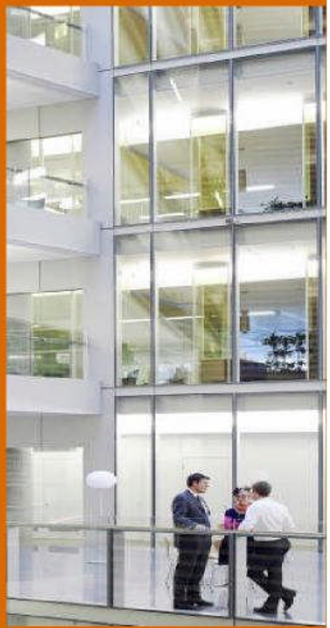


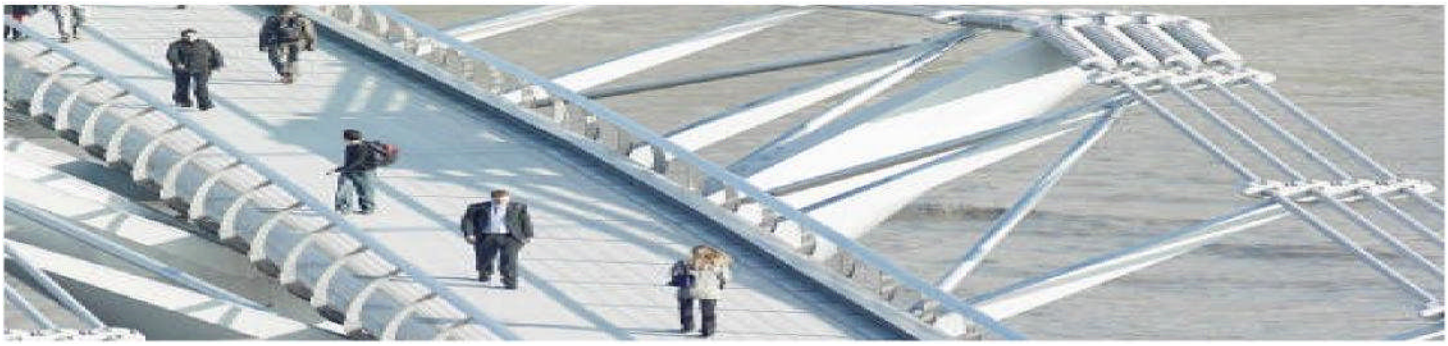
New regulation!

Guidance on the accounting system applicable to life insurance companies and reinsurance companies

On 19 December 2014, the Ministry of Finance ("MoF") issued Circular 199/2014/TT-BTC ("Circular 199") providing guidance on the accounting system applicable to life insurance companies, companies specialised in providing health insurance and life reinsurance companies (altogether as "Life insurance companies."). This Circular will become effective from 1 January 2016 and will replace Decision 1296/TT/QĐ/CĐKT on 31 December 1996 ("Decision 1296") and Decision 150/2001/QĐ-BTC on 31 December 2001 ("Decision 150").

Circular 199 introduces a chart of accounts and provides accounting principles, accounting method and a template of a set of financial statements applied for Life insurance companies. These accounting principles and methods are considered to be more in line with the insurance activities of Life insurance companies.

For any accounting matters which are not mentioned in Circular 199, the prevailing corporate accounting regime shall be applied. This is considered as one of the grey areas in applying Circular 199 when Circular 200/2014-TT-BTC ("Circular 200"), providing guidance on accounting regime for corporates, was issued on 22 December 2014 (3 days after the issuance of Circular 199). As a result, a few guidance within Circular 200 have not been reflected in the chart of accounts and/or the financial statement templates of Circular 199. Therefore, the Life insurance companies may need to consider flexibly applying Circular 199 and Circular 200 to ensure they comply with the current corporate accounting regime. We observe an important difference in relation to accounting guidance for investment activities between Circular 199 and Circular 200 in which Circular 200 tends to be more update and closer to the international accounting practice.



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What are the significant changes?

Circular 199 consists of a few important changes on the accounting system and the presentation of the financial statements of Life insurance companies.

Chart of accounts

Introducing some new accounts ("Ac") such as Ac 337 – Receivables and Payables among funds to fulfil the requirements of the current regulations on fund splitting.

Adding some level 2 and level 3 accounts to reflect in more detail the insurance activities, such as Ac 1284 – Advances from surrender value; level 2 and level 3 accounts of Ac 131, Ac 337, Ac 352, Ac 51111, Ac 624, etc.

Amending name of some existing accounts to be better reflect insurance activities such as Ac 3387, Ac 531, Ac 532, etc.

In addition, Circular 199 also abolished some accounts from the corporate accounting regime (Circular 15 in particular) which are not relevant to insurance business.

Therefore, the accounting system of the Life insurance companies also needs to be updated and/or changed to reflect the requirements under Circular 199.

Accounting principles and accounting treatment

Circular 199 provides detail guidance on accounting principles and accounting treatments for some accounts applicable to Life insurance companies. In general, there is no significant change in accounting treatments compared to the preceding regulations.

The detail guidance on the accounting treatment of some insurance activities applied to a few income statement accounts such as premium income (Ac 511) and direct insurance expenses (Ac 624), selling expenses (Ac 641) corresponding to balance sheet accounts such as accounts receivable (Ac 131), accounts payable (Ac 331), Advance premium/Unearned premium (Ac 3387), will help to improve the consistency across Life insurance companies.

A few new matters to note as follows:

- Insurance premium and commission of outward or inward reinsurance as well as related accounts receivable and payable should be reconciled on a timely basis and should be done in the same accounting quarter.

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Accounting principles and accounting treatment(continued)

This is to ensure premium and commission are recorded at the time when the liability arises under the insurance policies. The reconciliation should also be done at the end of the financial year. This new requirement was not mentioned in any preceding regulations.

- Direct insurance expenses and other expenses will be transferred directly to account 911 to determine the profit and loss of the period, no longer required to go through Ac 154 and Ac 632 as previously. This new guidance is a step closer to the current practice of the insurance companies.
- Commission payables and receivables relating to reinsurance activities are offset with premium assumed receivables and premium ceded payables on the balance sheet. This offsetting may lead to a significant decrease of account receivables and account payable balances presented on the balance sheets of those life reinsurance companies.
- Receivable from investment activities such as accrued interest income is no longer recorded in Account receivable (Ac 131). Instead, it is recorded as other receivables under account 138. Consequently, the account receivables should now only include the receivables relating to direct insurance activities.

Fund split's accounting principles

Circular 199 provides detail guidance on which accounts to be used for fund split reporting and their accounting treatments. Accordingly, life insurance companies are required to use sub-accounts and codes for each fund to manage their assets, equity, revenue, expenses, receivables, payables and operational results of each fund. These detail guidance will help to improve the consistencies among life insurance companies and to improve quality of information presented in fund split report.

Financial statements

Circular 199 introduces a template for a set of financial statements for Life insurance companies with some changes as follows:

On the balance sheet, accounts receivable, accounts payable and provision for receivables are classified into short-term and long-term assets. Liabilities are also separated between short and long term. Technical reserves are classified into long-term liabilities instead of disclosed as a separate item as before. The above reclassifications will improve the consistencies in presenting short or long term assets and liabilities, except for the classification of claim reserve and unearned premium reserve which are short term in nature into long term liabilities.

Income statement includes 2 parts (i) the Summary of Income Statement (ii) Income statement by activities. There is no template for cash flow statement under this Circular. Cash flow statement should follow current corporate accounting regime.

Financial statements (continued)

Notes to the financial statements on applying accounting policies require specific presentation of the principles and methods of recognition of premium, insurance expenses and technical reserves.

Moreover, Circular 199 requires additional disclosures on insurance risk and risk management policies of life insurance companies, the policy of life insurance companies to minimise risks born from the insurance contract, analysing the level of concentration of the insurance risk, disclosing claim paid and comparing claim paid with previous estimates.

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