Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
22 March 2023
2pm – 4pm

Objective:

- Update from APRA on reporting and prudential standards, and APRA Connect
- Update on public sector insurance project
- Update on Tax
- Industry papers discussion:
    - ARPC cyclone contract- AASB 17 contract boundary and application of para. B64
- IFRS Interpretation Committee outreach – premiums receivable from an intermediary
- AASB 17 Insurance Contracts Presentation, Disclosure, Transition and Other Accounting Policy Decisions: A Survey on Australian Insurance Entities
- Update from the PHI focus group
- Update from the LMI focus group
- Update from AALC
- Update from Actuaries Institute Taskforce

Note: These minutes provide a summary of discussion only and any views or interpretations do not constitute professional advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this document.

Topic	Agenda paper
Welcome and introduction	
Welcome and introduction by TRG Chair ("The Chair" hereafter).	
Update from APRA on reporting and prudential standards, and APRA Connect	

• APRA has just finished the final consultation on the prudential standards and is expected to issue a letter to confirm whether to make any refinements in the next week (Note: the letter, together with amended prudential standards and one non-confidential submission, were made available on 30 March 2023 **here**)
• APRA plans to:
    ○ provide a webinar on AASB 17 new capital collection reporting in APRA Connect on 30 March (available **here**);
    ○ release the first phase of collections, which contains the most complex/highest priority forms (12 out of 69) by the end of March to allow entities more time for familiarisation before the remaining collections are released;
    ○ release taxonomy artifacts on its public website, which would provide technical information about the collections and validation rules that are applied to them (available here); and	

Topic	Agenda paper
○ make some minor amendments to remove ambiguity and correct issues in the final standards that were released in September 2022. • In response to the Chair's question regarding when the rest of the forms are expected to be made available, the APRA representative said that the rest will be released in either one or two phases prior to the effective date (1 July 2023). • A member asked whether the forms are Excel templates. The APRA representative explained that the 12 forms that would be released first are not Excel templates but part of APRA's external test environment, which allows entities to interact with those collections and start testing their own solutions at their end. The taxonomy artifacts are Excel templates that can be used to upload the data into the collections. • The 12 forms include: ○ statement of financial position for all industries; ○ general insurance-related - asset risk charge for Level 1 (L1) and Level 2 (L2) insurers, outstanding claims liabilities insurance risk charge for L2, and premium liabilities insurance risk charge for L2; ○ life insurance-related - asset risk charge, Capital adequacy supplementary information; and ○ Private health insurance-related - asset risk charge and insurance risk charge. • In response to the Chair's question regarding whether the test will mimic the live environment. The APRA representative said the collections that will be introduced into the external test environment are in a state that APRA would expect to release them into production. Unless there is a fatal flaw, they should operate in exactly the same manner that they do in production.	
Updates from public sector insurance project	**ATT1**
• The AASB issued AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector* in late December 2022. The main change from the Fatal Flaw Review Draft Standard issued in October 2022 was to extend the effective date to periods beginning on or after 1 July 2026 instead of periods beginning on or after 1 July 2025. Other changes were editorial. • The New Zealand XRB is expected to issue a revised version of PBE IFRS 17 *Insurance Contracts* with the same public sector modifications as AASB 2022-9 in the next quarter with the same effective date in practical terms. • While the project is completed and has been removed from the AASB's work program, the AASB will monitor the implementation of AASB 17 in the public sector. The AASB staff are also mindful that, by the time public sector entities are transitioning to AASB 17, the post-implementation review of IFRS 17 may be in progress, and the AASB will monitor that review from the perspectives of both the private and public sectors. • One member sought clarity on the minor difference in the risk adjustment between the Australian and New Zealand Standards. AASB staff noted the difference due to the 75% probability of adequacy rebuttable presumption originally proposed by the NZ XRB at the exposure draft stage did not go ahead and as a result there is now a full alignment between the two jurisdictions. <u>Next steps</u>	

Topic	Agenda paper
• Whilst the AASB will continue to monitor for any public sector-specific issues there are no TRG Public Sector focus group meetings planned in the near term at this stage.	
Update on Tax	

• As explained at the previous (December 2022) TRG meeting, it was anticipated that the Treasury would provide transitional tax provisions via a media release.
• The media release has not yet been issued and much uncertainty remains as a result.
• A representative from the Financial Services Council (FSC) provided an update from a life insurance perspective, noting that there is lack of clarity of tax treatment for major areas of change (being deferred acquisition costs and losses from onerous contracts) and this will impact transitional provisions.
• An update from a general insurance perspective from a representative of the working group of the Insurance Council of Australia (ICA) included, in the absence of direction from Treasury:
  o The need for dual reporting, i.e. continuation of AASB 1023 *General Insurance Contracts* (AASB 1023) basis for tax.
  o Most problematic areas are the transitional adjustment (for example, onerous contract losses, contractual service margin applying the general model, and the risk adjustment).
  o There appears to be continuing uncertainty ahead as the discussion with the Treasury has slowed since 2022 discussions, although there is some possibility the transitional provisions will be dealt with as part of the 2023 budget or soon after.
• The Chair asked how the differences from dual reporting would be treated. The representative responded that the differences are temporary and would ordinarily result in a deferred tax asset or liability on the balance sheet.
• One representative believed that there would be alignment as the Treasury is supportive of the alignment and there are precedents in New Zealand and in the UK.
• For 31 December reporters, there are AASB 1023 requirements for APRA reporting until 30 June 2023 so they will likely continue to run AASB 1023 and AASB 17 accounting in parallel till at least June 2023.
• When asked about private health insurers (PHI) the representative noted that the concern for AASB 17 impact would not be as significant as it is for general and life insurers. One member representing a PHI confirmed this to be the case.	

Industry papers discussion: ARPC cyclone contract- AASB 17 contract boundary and application of para. B64	**ATT2**
<u>Background</u> • Contract boundary of reinsurance contracts held with the ARPC for cyclone risks was initially considered at the **December 2022 AASB 17 TRG** meeting and it was decided that input also be sought from the Accountants' and Actuaries' Liaison Committee and to report back to the AASB 17 TRG. **<u>February 2023 AALC meeting</u>**	

Topic	Agenda paper

The AALC was asked essentially the same questions as those posed to the TRG in December 2022 and members were specifically asked, if you agree with View 3, what is your basis for supporting that View. The perspectives provided are detailed in the industry paper tabled at the AASB 17 TRG in March 2023

March 2023 AASB 17 TRG discussion

- Members who participated in the discussion were mostly in support of View 3.
- One member supported View 1 as the default view while being open to View 2.
- One member noted one argument for View 3, i.e. ARPC terms subject to change at the discretion of the Minister at the end of a 3-year transition period is a future event that is not relevant in determining the contract boundary at initial recognition given there is much uncertainty with respect to what could eventuate.
- In response a member in support of View 3 argued that there are examples of when the ability to 'walk away' did occur in general insurance and these were specifically related to a catastrophe event.
- Another member clarified that the assessment of contract boundary is not one sided but considers both the reinsurer's right to reprice (for determining when the reinsurer's obligation ends) and the reinsurer's right to compel the insured to pay premium (for determining when the reinsurer's right/insured's obligation pay the premium ends), noting that this was consistent with how View 3 was reached.
- One member noted that the Minister's discretion to reprice for private health insurers (PHI) was the basis upon which the majority of PHIs landed on a 12-month contract boundary.
- In relation to View E, one member confirmed that this view was added to provide an alternative basis to arrive at View 3.
- Some members disagreed with the interpretation of paragraph AASB 17.B64 in the paper as in their view, the paragraph would only be applied from an issuing party's (ARPC's) perspective.
- Members were also divided on whether consensus is needed for one particular View. Those in favour of not needing to reach a consensus view among TRG members argued that different facts and circumstances of different insurers might lead to different outcomes and might affect those insurers who have already settled on a view on similar issues, i.e. Compulsory Third Party and PHI.
- The Chair noted that enforcing consistency and setting accounting guidance was not within the remit of the TRG.

Next steps

- The Chair will reach out to various stakeholder groups to determine appropriate next steps.

Topic	Agenda paper
IFRS interpretation committee outreach- premiums receivable from an intermediary	**ATT3**

Background

- This issue has been discussed for over two years without reaching consensus across the Australian market. In the last six months, there have been two papers sent to the IFRS Interpretations Committee on this issue.
- The IFRS Interpretations Committee issued a paper exploring the issue and with a Tentative Agenda Decision (TAD) that was subsequently updated and discussed at their March 2023 meeting.

The updated paper includes the following:

- The requests ask whether, in the submitted fact pattern, the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 or is a separate financial asset applying IFRS 9. The requests set out two views.
  - Under the first view (View 1), the insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. Applying View 1, when the policyholder pays the premiums to the intermediary:
    - (a) for a group of contracts to which the premium allocation approach does not apply, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, include them in the measurement of a group of insurance contracts until recovered in cash; and
    - (b) for a group of contracts to which the premium allocation approach does apply, the insurer increases the liability for remaining coverage in IFRS 17 only when the premiums are recovered in cash.
  - Under the second view (View 2), the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary and determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an insurance contract but rather a separate financial asset. Applying View 2, when the policyholder pays the premiums to the intermediary:
    - (a) for a group of contracts to which the premium allocation approach does not apply, the insurer removes the premiums from the measurement of a group of insurance contracts and, applying IFRS 9, recognises a separate financial asset; and
    - (b) for a group of contracts to which the premium allocation approach does apply, the insurer increases the liability for remaining coverage in IFRS 17 and recognises a separate financial asset.
- In terms of information about credit risk, IFRS 17 and IFRS 9 deal differently with expected credit losses from an intermediary. Regardless of which view (View 1 or View 2) an insurer applies, an insurer is required to apply all the applicable requirements in either IFRS 17 (including paragraph 131 that requires disclosure of information about credit risk that arises from contracts within the scope of IFRS 17) or IFRS 9 (and the requirements in IFRS 7 Financial Instruments: Disclosures) to the premiums receivable from an intermediary.
- The IFRS Interpretations Committee updated TAD concluded that a tentative agenda decision should be issued for comment that states:

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○ because IFRS 17 is silent on when future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts, in the fact pattern described, an insurer could account for premiums paid by a policyholder and receivable from an intermediary applying either IFRS 17 or IFRS 9; and ○ the Committee concluded not to add a standard-setting project to the work plan. Note that the original TAD did include comments in relation to another topic previously discussed at the AASB 17 TRG regarding application of other standards as follows and the full TAD should be referenced for further details: • The Committee also discussed cash flows within the boundary of an insurance contract under IFRS 17 and conclude that an insurer removes cash flows from the measurement of a group of insurance contracts: a. when the cash flows are recovered or settled; or b. when the cash flows are recognised as an asset or a liability applying another IFRS Accounting Standard; Next steps The AASB 17 TRG determined to respond to the IFRS Interpretations Committee to support the proposals made in the TAD and noted that the AASB would consider whether to endorse the TRG's response at its 4 May 2023 meeting.	
AASB 17 Insurance Contracts Presentation, Disclosure, Transition and Other Accounting Policy Decisions: A Survey on Australian Insurance Entities	**ATT4**
• The AASB conducted a survey among Australian insurers to ascertain planned approaches to a range of presentation, disclosure and other accounting policy choices in AASB 17. • A questionnaire was issued to obtain data. The questions were drawn from primarily from AASB 17 and primarily focus on requirements related to presentation and disclosure and choices therein. Overall, 21 insurers responded to the survey. • In summary, ○ the level of aggregation for a range of disclosures and presentation varies, although the responses indicate a tendency to apply those disclosure and presentation requirements at a high level of aggregation; ○ some insurers plan to apply more granular presentations in their insurance liability reconciliations compared with the face of their financial statements; ○ the amounts presented in reconciliations for a liability for remaining coverage and a liability for incurred claims may differ between insurers based on judgements made about whether and when it is appropriate to transfer cash flows related to unexpired coverage between the two liabilities; and ○ approaches to classifying premiums receivable from intermediaries vary, It was noted that the different circumstances facing insurers are likely to lead to them applying judgement and exercising presentation choices differentially.	

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• This research could help to facilitate the Australian industry's ongoing application of AASB 17 and contribute to the post-implementation review of AASB 17. • The whole market will be considered in the post-implementation review. • The Chair noted that the report once published on the AASB website will be useful for insurers to see the choices made by peers in their respective cohorts including life, non-life and health.[The report was subsequently published on 30 March 2023]	
Update from the PHI focus group	**ATT5**
• The PHI focus group had its first meeting of the year in March. Current discussions are around givebacks and premium rate rise deferrals as a result of COVID-19 liabilities. The PHI focus group will have more meetings through the next few months of transition and will share more information with TRG members in future TRG meetings.	
Update from the LMI focus group	
• The purpose and function of LMI focus group is to provide a forum for communication and discussion of LMI specific AASB 17 topics or issues. • Preparers will drive problem statements for discussion, and where such problems may be deadlocked, the focus group can facilitate discussions with the AALC and AASB 17 TRG • Neither the AASB TRG nor the focus group provides accounting guidance. • An update of major issues/topic was provided (Available here).	
Update from AALC	
• AALC is a forum of actuarial and accounting representatives across the industry, as well as the big four firms which meet six times a year to discuss various topics of interest in the industry, including IFRS 17 technical and implementation issues. • The first meeting for the year was on 22 February and discussed a few topics including the industry paper on ARPC cyclone cover discussed in the TRG meeting today. • They also discussed the treatment of experience adjustments in relation to investment components. There was a good debate on this topic, which will be discussed again at the next AALC meeting, and maybe the next TRG meeting for a broader discussion. • Another important topic is the disclosure requirements for the first interim reporting under AASB 17 which is likely to stay on the agenda for a while this year given that this is a topical issue when implementing AASB 17 for the first time. • The next meeting is on 4 April. The AALC is a useful forum for discussing topics behind closed doors before taking it up to the TRG meeting. Guests are very welcome to raise issues for discussion. If anyone has topics they would like to raise, please contact Rachel Poo .	
Update from Actuaries Institute Taskforce	
• The meeting in February was cancelled and the next meeting will be on the 31 March. • There are some useful education/training sessions, which are free to all members of the institute and $100 for non-members. • There will be a congress on 29 May – 1 June. It will be open to actuaries as well as non-actuaries. There will be one mini-plenary session where the Chair of the IASB will be speaking. There will also be a concurrent session on IFRS 17.	
End Meeting	

Topic	Agenda paper
• Next meeting is scheduled to be held on 6 June 2023.	

Attendance

Members	Anne Driver (Chair) Elaine Hultzer Cassandra Cope Brendan Counsell David Daniels Michael Burns Anna Donoghoe (for Scott Hadfield) Regina Fikkers Alana Bailey Louise Miller David Rush Rob Sharma Rachel Poo Warwick Spargo Leong Tan Ciara Wasley Will Tipping (for Leann Yuen) Brett Pickett Eric Cheng Tom Lunn Eamon Sloane
Apologies	Toby Langley Anthony Coleman Frank Saliba
Other presenters	Angus Thomson Kos Dimitriou Michael Garrod Anna Donoghoe Andrew Toone Brett Pickett Rhian Saunsbury
Secretary	David Ji
AASB Staff	Eric Lee Patricia Au Jia Wei