

Staff Paper

Project	Insurance Activities in the Public Sector	Meeting	AASB (M183)/NZASB September 2021
Topic	Redeliberation of Scope and Risk adjustment topics	Agenda item	AASB 11.3 NZASB 3.3
		Date	23 August 2021
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		Decision-making	High
		Project status	Board deliberation

Objective of this paper

- The objective of this paper is for the AASB and the NZASB to redeliberate some of the decisions taken at the April 2021 AASB meeting and April and May 2021 NZASB meeting on:
 - scope of application of AASB 17/PBE IFRS 17 *Insurance Contracts* to public sector entities
 - risk adjustments for non-financial risk in respect of public sector entities.
- Most of the tentative decisions on these topics made by the respective Boards are either the same or are likely to be reconcilable when the Boards consider a draft consultative document. However, there are some differences that, to be resolved, require redeliberation.
- There is no imperative for the Boards to arrive at the same conclusions, and the circumstances in each jurisdiction are different.
- However, the Boards agreed to use their best endeavours to achieve a consistent outcome and there are benefits in leveraging from the efforts of both Boards.

Structure of this paper

- This staff paper is set out in four sections:
 - [Section 1](#) notes the difference between the decisions of both Boards on the use of the indicator 'binding nature of the arrangement' for determining the **scope** of application of AASB 17/PBE IFRS 17 to public sector entities, and provides a staff suggestion for resolving the difference.
 - [Section 2](#) notes the difference between the decisions of both Boards on the use of the indicators 'claims handling' and 'financial management' for determining the **scope** of application of AASB 17/PBE IFRS 17 to public sector entities, and provides a staff suggestion for resolving the difference.



- [Section 3](#) compares the differences between the decisions of both Boards on **risk adjustments** in respect of public sector entities and provides staff suggestions on resolving the differences. A table of the decisions of both Boards on risk adjustments are presented in [Appendix C](#).
- [Section 4](#) seeks to confirm the decisions on **scope** that were virtually the same across both Boards. These decisions are outlined in [Appendix B](#).

Section 1: Boards’ decisions on ‘binding nature of arrangement’ in respect of determining the scope of application of AASB 17/PBE IFRS 17 to public sector entities

6. The table below outlines different perspectives of the Boards on the indicators: S6 & S7 – binding nature of arrangement.

S6 & S7	Binding nature of arrangement		
<p>Brief background: The notion of ‘practical ability’ can be used to help distinguish those cases when a public sector arrangement should be regarded as binding from cases when an arrangement is not binding. That is, an indicator for regarding arrangements as being insurance transactions would be that the entity (or its controlling government) does not have the practical ability to change a benefit retrospectively.</p> <p>The Boards discussed whether an assessment of ‘practical ability’ should take into account whether the entity (or its controlling government) has sufficient political capital to make a change that reduces a benefit.</p> <p>An alternative approach to addressing the impact of an entity’s capacity to change the terms of a scheme’s benefits or the extent of events covered would be to measure the liabilities based on the expected possible changes to benefits and events covered. That is, for example, if it expected that governments will reduce benefits, the entity’s liabilities would be measured at lower amounts relative to existing benefit levels.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that the extent to which an arrangement is binding on the public sector entity should be:</p> <p>(a) an indicator that the arrangement is within the scope of AASB 17 [Question S6]; and</p> <p>(b) determined based on whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively using an existing power, or power that is substantively enacted [Question S7].</p> <p>The Board did not support using ‘practical ability’ in a broader sense, based on an entity’s, or government’s, practical power to obtain legislative/regulatory</p>	<p>The Board agreed that:</p> <p>(a) the extent to which an arrangement is binding on the public sector entity should be an indicator that the arrangement is within the scope of PBE IFRS 17 [Question S6]; and</p> <p>(b) the extent to which an arrangement is binding should be based on whether the public sector entity (or its controlling government) has the practical ability to change a benefit retrospectively [Question S7].</p>	<p>Yes/but</p>	<p>Staff consider the NZASB and AASB decisions are effectively consistent, but staff suggest the Boards should specifically redeliberate whether they favour proceeding on the basis that:</p> <p>(a) entities don’t need to look at ‘political’ issues to determine ‘practical ability’; and</p> <p>(b) ‘practical ability’ is determined by reference to existing or substantively enacted regulation.</p> <p>Alternatively, unless members have further comments on these indicators, the Boards redeliberate this matter when they have a (staff-prepared)</p>

S6 & S7	Binding nature of arrangement		
change in order to retrospectively change benefits.			draft consultative document to review.

Question for Board members	
Q1	Do Board members agree with proceeding on the basis that:
(a)	entities do not need to look at ‘political’ issues to determine ‘practical ability’; and
(b)	‘practical ability’ is determined by reference to existing or substantively enacted regulation?

Section 2: Boards’ decisions on ‘claims handling’ and ‘financial management’ in respect of determining the scope of application of AASB 17/PBE IFRS 17 to public sector entities

7. The table below outlines different perspectives of the Boards on the indicators: S15, S16 & S17 – claims handling and financial management.

S15	Claims handling		
<p>Brief background: The Boards discussed the features of claims handling and the management of other types of benefits, including:</p> <p>(a) there are many similarities between an insurance claims management function and the processes that might be employed to deliver social or other benefits in an equitable manner and according to government policy;</p> <p>(b) insurance contract claims might be more likely to be handled in a manner that caters specifically for a beneficiary’s needs relating to a specified loss, relative to other benefits, which are more likely to be standardised (however, standardised benefits also apply under some forms of insurance, such as private health insurance medical expense reimbursements based on a schedule);</p> <p>(c) the focus of insurance contract claims handling is on both income and costs, whereas other benefits are more likely to be managed only from the cost side.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <p>(a) the extent to which claims are assessed to cater specifically for a beneficiary’s losses, rather than being broadly-determined standardised amounts is unlikely to be a useful indicator for applying AASB 17 because insurance contracts often provide only standardised benefits (such</p>	<p>The Board agreed that:</p> <p>(a) the extent to which claims are assessed to cater specifically for a beneficiary’s losses, rather than being broadly-determined standardised amounts; and</p> <p>(b) the extent to which the focus of cost management is on both income and costs,</p>	No	<p>It would useful to attempt to reconcile the Boards’ views for the purposes of preparing a draft consultative document.</p> <p>Staff suggest blending claims handling as an indicator into the broader indicator on on ‘Assessing financial performance/how an</p>



S15	Claims handling		
<p>as many private health insurance contracts); and</p> <p>(b) the extent to which the focus of cost management is on both income and costs, rather than simply cost minimisation would, at best, be a weak indicator for applying AASB 17 – please refer to the Board deliberation on ‘Assessing financial performance/how an entity is managed’[Question S15].</p> <p>Please see S16 & S17 immediately below.</p>	<p>rather than simply cost minimisation;</p> <p>are potentially useful indicators for determining when PBE IFRS 17 would apply in the public sector [Question S15].</p>		<p>entity is managed’ – please see S16 & S17.</p> <p>Alternative suggestions are most welcome.</p>

S16 & S17	Assessing financial performance/how an entity is managed		
<p>Brief background: The Boards discussed the following:</p> <p>(a) An indicative criterion in IPSAS 42 for being eligible to apply the insurance approach is that the entity assesses its financial performance and financial position of a social benefit scheme on a regular basis where it is required to report internally on the financial performance of the scheme, and, where necessary, to take action to address any under-performance.</p> <p>(b) Stakeholders generally consider there are accountability and performance mechanisms across the spectrum of social benefit and insurance arrangements in most jurisdictions.</p> <p>(c) The inference that social benefit schemes versus insurance schemes are less likely to monitor performance in this way is probably not supportable.</p> <p>(d) Stakeholders seem more interested in discussing the ways in which they managed their activities, rather than the more general matter of assessing financial performance.</p> <p>(e) Many stakeholders from entities currently applying AASB 1023/PBE IFRS 4 hold the view that they have been established to manage an area of risk and provided with seed capital to operate with a view to not making further calls on government funding. They consider themselves to be operating an insurance business on a long-term sustainable basis. Within the constraints imposed upon them, they price risk based on commercial principles and manage claims fairly and prudently.</p> <p>(f) Many (Australian) stakeholders from entities currently applying AASB 137 hold the view that they are operating a compensation scheme based on terms that have largely been dictated to them (for example, through their enabling legislation) and do not have the scope to manage the risks in the manner of a commercial insurer.</p> <p>(g) A small number of (Australian) stakeholders indicated that they consider the way their entities are currently managed would be better reflected in a change to their existing accounting – some from AASB 1023 to AASB 137 and some from AASB 137 to AASB 1023/AASB 17.</p>			



S16 & S17	Assessing financial performance/how an entity is managed		
<p>(h) Staff consider that the manner in which an entity is managed is, in principle, an important indicator of which standards should be applied on the basis that reflecting the ‘business model’ in financial statements is something that standards should aim to achieve. However, this type of indicator can be subject to wide interpretation unless it is associated with specific insurance liability management practices.</p> <p>(i) Insurance liability management practices can include underwriting and pricing specific types of risks. Although few (if any) public sector insurers are completely unconstrained in their ability to differentially price their services, many of them are able to price risk based a participant’s characteristics (for example, industry of employment or type of vehicle or claims experience).</p> <p>(j) Use of reinsurance contracts to manage capital. This is not to say that the existence of a reinsurance contract, of itself, indicates that an entity issues insurance contracts. However, it can indicate that the entity is expected to manage its liabilities prudently and protect its own capital base (rather than relying on the taxpayer) for its continuing operation, much like a commercial insurer.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <p>(a) the existence of a practice of an entity generally assessing financial performance and financial position on a regular basis is not a useful indicator for determining when AASB 17 would apply in the public sector [Question S16]; however,</p> <p>(b) the existence of insurance liability management practices (such as underwriting and reinsurance of risks accepted from participants) would be a useful indicator that AASB 17 should apply [Question S17].</p>	<p>The Board agreed that:</p> <p>(a) the existence of a practice of an entity generally assessing financial performance and financial position on a regular basis is not a useful indicator for determining when PBE IFRS 17 would apply in the public sector [Question S16]; however,</p> <p>(b) the existence of insurance liability management practices (such as underwriting) would be a useful indicator that PBE IFRS 17 should apply [Question S17].</p>	<p>Yes</p>	<p>The Board’s decisions are effectively the same.</p> <p>The AASB gave more weight (than the NZASB) to reinsurance as a relevant capital management practice in an insurance context. A noted above in respect of ‘Claims handling’, staff suggest blending the indicator S15 into the broader indicator on on ‘Assessing financial performance/how an entity is managed’ (S16 & S17).</p>

Question for Board members

Q2 Do Board members agree with proceeding on the basis that claims handling is blended as an indicator into the broader indicator on ‘Assessing financial performance/how an entity is managed’ – please see S16 & S17 immediately below?

Section 3: Boards' decisions on risk adjustments

8. The table in Appendix C to this paper outlines the decisions of the AASB and the NZASB at their April and May 2021 meetings on accounting for risk adjustments by public sector entities under AASB 17/PBE IFRS 17.
9. Under AASB 17/PBE IFRS 17, a risk adjustment is:

The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
10. The NZASB was particularly concerned that entities, their advisors and auditors might expend considerable effort to identify and measure a relevant 'compensation-based' risk adjustment for little benefit to users.
11. Existing practice under AASB 1023/PBE IFRS 4 has developed over many years and most public sector entities applying these standards benchmark to a 75% probability of adequacy. That benchmark originated in minimum solvency requirements issued by the Australian Prudential Regulation Authority. It seems to have become widely accepted (including outside Australia and New Zealand) because it is:
 - (a) relatively easy to measure;
 - (b) relatively easy to understand; and
 - (c) financial statement users and entity managements have found it informative.
12. The 75% benchmark has effectively alleviated the need for entities to expend resources on measuring risk margins under AASB 1023/PBE IFRS 4. Another practice (which is equally inexpensive to implement) that has gained general acceptance is to measure risk margins under AASB 1023/PBE IFRS 4 at a probability of adequacy that matches the amount of the available (earmarked) funding, typically subject to there being a minimum 75% probability of adequacy.
13. At their April and May 2021 Board meetings, a number of Approaches were considered. In addition, a number of possible supplementary disclosure requirements were considered in conjunction the three Approaches, as outlined in the Table below.

Approaches	Possible supplementary disclosures
Approach 1: Require each public sector entity to apply AASB 17/PBE IFRS 17 with no modifications or guidance	If each public sector entity applies AASB 17/PBE IFRS 17 with no modifications or guidance, the entity could also be required to disclose a risk adjustment for a benchmark probability of adequacy (such as 75%) to provide a point of reference for comparison.
Approach 2: Require public sector entities to have a zero risk adjustment	If each public sector entity recognises a zero risk adjustment, the entity could also be required to disclose what the risk adjustment would have been if AASB 17/PBE IFRS 17 had been applied unmodified.
Approach 3: Require a particular probability of adequacy for determining risk adjustments for all public sector entities	If each public sector entity recognises a risk adjustment for a particular probability of adequacy, the entity could also be required to disclose what its risk adjustment would have been if AASB 17/PBE IFRS 17 had been applied unmodified.



14. Table 3-1 (below) outlines the objectives that the IASB had in mind when they concluded on the need for a risk adjustment in measuring insurance contact liabilities. Table 3-1 also includes staff remarks on the IASB’s reasoning in a public sector context, plus a staff assessment about how each of the three Approaches might achieve the relevant objectives. The first two columns are an extract from the April/May 2021 meeting agenda paper on risk adjustments, with some additional commentary.

Table 3-1		Staff assessment of how Approaches might achieve risk adjustment objectives		
Objectives of requiring risk adjustments under IFRS 17		1: No modifications	2: Zero risk adjustment	3: Risk adjustment based on standardised PoA (eg: 75%)
Basis for Conclusions	Staff comments			
Requiring a risk adjustment provides a clear insight into the insurance contracts and distinguishes them from risk-free liabilities [BC211(a)].	This reasoning seems as relevant in the public sector as it is for private sector insurers.	Approach 1 would achieve this objective to the same extent for all entities in all sectors.	Approach 2 would not achieve this objective.	Approach 3 would substantially (and possibly fully) achieve this objective.
Requiring a risk adjustment results in a profit recognition pattern that reflects both the profit recognised by bearing risk and the profit recognised by providing services [BC211(b)].	This reasoning would be less relevant in respect of public sector entities that are not seeking to profit from bearing risk (although, as previously discussed with the Boards, IFRS 17 specifically applies to not-for-profit mutual entities).		Approach 2 would not achieve this objective.	Approach 3 would achieve this objective to the extent the risk adjustment based on a standardised PoA faithfully reflects the insurance risks.
Requiring a risk adjustment faithfully represents circumstances in which the entity has charged insufficient premiums for bearing the risk that the claims might ultimately exceed expected premiums [BC211(c)].	This reasoning seems relevant in the public sector. However, probably not as relevant as for private sector insurers because not-for-profit public sector entities are less likely to be seeking to remediate loss-making arrangements.		Approach 2 would not achieve this objective in respect of the risk adjustment itself; however, insufficiency of premiums would still be revealed by any underwriting shortfall.	Approach 3 would achieve this objective to the extent the risk adjustment based on a standardised PoA faithfully reflects the insurance risks.
Requiring a risk adjustment results in reporting changes in estimates of risk promptly and in an understandable way [BC211(d)].	This reasoning seems as relevant in the public sector as it is for private sector insurers.		Approach 2 would not achieve this objective.	Approach 3 would substantially (and possibly fully) achieve this objective – while the PoA is fixed, the risk adjustment amount would change with changed estimates of the level of risk.



Staff analysis

15. There was a general view among both Boards that it would be inappropriate to require more of public sector entities than is required of other entities applying AASB 17/NZ IFRS 17. Accordingly, in general, there was little support for requiring supplementary disclosure requirements in conjunction with any of the above three recognition Approaches.
16. Staff note that recognition Approach 1 (no modifications) would be consistent with ‘sector neutrality’, but it could be argued that it is not necessarily consistent with ‘transaction neutrality’ on the basis that there is economic substance to the differences between the circumstances of public sector entities versus private sector insurers in respect of risk adjustments.
17. Staff note that recognition Approach 2 (zero risk adjustment) would satisfy the concerns of those who consider that bearing risk is not relevant to the purposes of public sector arrangements that might fall within the scope of AASB 17/PBE IFRS 17. However, some types of risk adjustment would seem relevant for any entity that has transactions which fall within the scope of AASB 17/PBE IFRS 17 because the whole basis for identifying ‘insurance contracts’ is the transfer of risk.
18. Staff note that recognition Approach 3 would:
 - (a) involve the Boards in having to identify the relevant benchmark probability of adequacy, which may suit some entities but not others; and
 - (b) not be consistent with a principle-based approach to standard setting.However, staff also note that these concerns might be mitigated by making the benchmark probability of adequacy a rebuttable presumption.
19. On balance, staff favour recognition Approach 3 (probably as a rebuttable presumption) because it achieves most of the objectives of recognising a risk adjustment, as identified in the IFRS 17 Basis for Conclusions, and:
 - (a) the 75% probability of adequacy benchmark is a widely entrenched benchmark that the Board could identify;
 - (b) concerns about the use of a standardised benchmark, such as the 75% probability of adequacy, could be (at least partially) overcome by identifying it as a ‘rebuttable presumption’ – that is, entities could recognise a different risk adjustment if it is justified in the entity’s particular circumstances;¹ and
 - (c) Accounting Standards already include a number of practical expedients.²

1 Accounting Standards use a number of rebuttable presumptions – please refer to [Appendix A](#).

2 Accounting Standards use a number practical expedients – please refer to [Appendix A](#).



Questions for Board members

- Q3 Do Board members agree not to propose requiring additional disclosures for public sector entities in respect of risk adjustments? If you disagree, which disclosure(s) do you wish to propose?
- Q4 Do Board members agree to propose requiring public sector entities to recognise a risk adjustment based on a standardised probability of adequacy (recognition Approach 3)? If not, which recognition approach would you propose?
- Q5 If you agree with the proposition in Question 4, do Board members agree that a reasonable benchmark for a standardised probability of adequacy would be a 75% benchmark probability of adequacy? If not, what alternative benchmark would you propose?
- Q6 If you agree with the proposition in Question 5, do Board members agree to propose requiring a 75% benchmark probability of adequacy as a rebuttable presumption?

Section 4: Boards' decisions on scope that were virtually the same

20. The issues relating to the scope of application of AASB 17/PBE IFRS 17 on which the Boards indicated the same perspectives are presented in a table in [Appendix B](#).

Questions for Board members

- Q7 Do Board members agree that, for all the indicators noted in [Appendix B](#), **there is no need for additional Board discussion** until the Boards have a (staff-prepared) draft consultative document to review?



Appendix A: Standards with rebuttable presumptions and practical expedients

- A1 Accounting Standards use a number of rebuttable presumptions, including:
- (a) AASB 2/NZ IFRS 2 *Share-based Payment* [paragraph 13];
 - (b) AASB 9/NZ IFRS 9 *Financial Instruments* [paragraphs 5.5.11 & B6.3.13];
 - (c) AASB 15 *Revenue from Contracts with Customers* – Australian implementation guidance for not-for-profit entities [paragraph F28];
 - (d) AASB 16/NZ IFRS 16 *Leases* [paragraph 53];
 - (e) AASB 101/NZ IAS 1 *Presentation of Financial Statements* [paragraph 24];
 - (f) AASB 138/NZ IAS 38 *Intangible Assets* [paragraph 98A];
 - (g) AASB 140/NZ IAS 40 *Investment Property* [paragraph 53]; and
 - (h) AASB 141/NZ IAS 41 *Agriculture* [paragraph 30].
- A2 Accounting Standards use a number of practical expedients, including:
- (a) AASB 102 *Inventories* for not-for-profit entities acquiring inventories for significantly less than fair value [Aus10.2];
 - (b) AASB 9/NZ IFRS 9 *Financial Instruments* on using mid-market pricing [paragraph 71]; and alternative Level 1 pricing mechanisms [paragraph 79(a)];
 - (c) AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers* relating to significant financing components [paragraph 63]; recognising incremental contract costs as an expense as incurred [paragraph 94]; recognising the amount the entity has the right to invoice in measuring revenue [paragraph B16]; and
 - (d) AASB 16/NZ IFRS 16 *Leases* on short-term and low-value leases [paragraph 5] and non-separation of non-lease components [paragraph 15]; rent concessions not being modifications [paragraph 46A].



Appendix B: Decisions of the Boards at their April/May 2021 meetings on scope of application of AASB 17/PBE IFRS 17 on which the Boards indicated the same perspectives

B1 The table below outlines the decisions of the AASB and the NZASB at their April and May 2021 meetings on scope of application of AASB 17/PBE IFRS 17 on which the Boards indicated the same perspectives. Extracts along the lines of the meeting minutes are quoted in the table.

S1	For profit versus not-for-profit public sector entities		
<p>Brief background: IASB did not regard the not-for-profit nature of mutual insurance entities to be a factor that would cause IFRS 17 to be inapplicable. The IASB’s Basis for Conclusions makes it clear that IFRS 17 can be applied consistently to for-profit entities and mutual entities [IFRS 17.BC264 to BC269]. For-profit insurance entities and mutual insurance entities often compete for customers in the same markets.</p> <p>IPSAS 42 distinguishes ‘social benefits’ from ‘insurance’; however, most of the ‘social risks’ mentioned in the IPSAS 42 definition could be the subject of insurance contracts sold by for-profit private sector entities, including: (a) annuities (age-related risks); (b) health insurance (health-related risks); and (c) income protection insurance (potentially related to health, poverty and/or employment status risks). Also refer to S16 & S17 in Section 1.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <p>(a) although it is highly unlikely that activities of a for-profit nature could be ‘social benefits’, it would not necessarily be a useful indicator for determining the entities that should apply AASB 17;</p> <p>(b) the not-for-profit nature of an entity should not be a barrier to applying AASB 17; however,</p> <p>(c) the for-profit nature of an entity might be an indicator that AASB 17 would apply in the public sector, depending on other indicators [Question S1].</p>	<p>The Board agreed that:</p> <p>(a) activities of a for-profit nature should not be regarded as social benefits;</p> <p>(b) the not-for-profit nature of an entity should not be a barrier to applying PBE IFRS 17; however,</p> <p>(c) the for-profit nature of an entity might be an indicator that PBE IFRS 17 would apply in the public sector, depending on other factors [Question S1].</p>	<p>Yes</p>	<p>The Board’s decisions are effectively the same.</p> <p>Compared with the NZASB, the AASB thought (a) would be relatively less useful.</p> <p>However, unless members have further comments on these indicators, staff suggest there is no need for additional Board discussion about them until the Boards have a (staff-prepared) draft consultative document to review.</p>



S2, S3 & S4	Transaction neutrality, nature of risks covered and similarity of claims/benefits		
<p>Brief background: The Boards discussed whether the transactions or arrangements entered into by public sector entities having similar characteristics and relating to a similar level of insurance risk as those entered into by for-profit private sector entities that are accounted for as insurance contracts should be a criterion for applying AASB 17/PBE IFRS 17.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <p>(a) the similarity of insurance risks covered and the similarity of benefits provided relative to for-profit private sector insurance contracts should be identified as a pre-requisite for determining that AASB 17 would apply in the public sector [Question S2];</p> <p>(b) depending on the circumstances, transaction neutrality would generally be determined by reference to whether the same types of ‘contracts’ are issued in both the private and public sectors [Question S3]; and</p> <p>(c) it is suitable to apply the AASB 17 approach to addressing arrangements in the public sector that are a bundle of services, some of which might be insurance and some of which might not (and no specific additional guidance should be needed) [Question S4].</p> <p>In relation to (b), members decided it would be reasonable for entities to consider counterpart contracts outside Australia and New Zealand, using information that is ‘readily available’. That is, public sector entities would not need to conduct an exhaustive global search for counterpart contracts.</p>	<p>The Board agreed that:</p> <p>(a) the similarity of insurance risks covered and the similarity of benefits provided relative to for-profit private sector insurance contracts should be identified as a pre-requisite for determining that PBE IFRS 17 would apply in the public sector [Question S2];</p> <p>(b) in practical terms, transaction neutrality would be determined by reference to whether the same types of ‘contracts’ are issued in both the private and public sectors [Question S3]; and</p> <p>(c) it is suitable to apply the PBE IFRS 17 approach to addressing arrangements in the public sector that are a bundle of services, some of which might be insurance and some of which might not [Question S4].</p> <p>The Board indicated that the global private sector context is most relevant for benchmarking to similarity of insurance risks covered and benefits provided on the basis that the nature of the risks and benefits in general are relevant and the benchmarking should not be dependent on the existing state of the New Zealand insurance market.</p>	<p>Yes</p>	<p>The Board’s decisions are effectively the same.</p> <p>The AASB wants to emphasise that public sector entities would only need to consider ‘readily available’ information in identifying counterpart arrangements in the commercial sector at a global level.</p> <p>Staff consider the NZASB and AASB decisions are effectively consistent.</p> <p>Unless members have further comments on these indicators, staff suggest there is no need for additional Board discussion about these factors until the Boards have a (staff-prepared) draft consultative document to review.</p>

S5	Scoping out specific public sector schemes		
<p>Brief background: AASB 17/PBE IFRS 17 uses a range of practical expedients, including specifically identifying certain types of transactions that are excluded from its scope (rather than relying on principles to determine the scope). For example, AASB 17/PBE IFRS 17 excludes: (a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer; (b) financial guarantees; and (c) fixed fee contracts.</p> <p>At the Boards' June 2021 meetings, staff suggested using practical expedients such as (in an Australian context) specifically identifying the following as not being within scope in their current form: (a) Medicare benefits (Australia); and (b) National Disability Insurance Authority benefits/programs (Australia).</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <p>(a) while it would provide certainty for some entities, it is generally opposed to specifically identifying particular public sector schemes that are not within the scope of AASB 17 because it is not the role of the Board to identify specific entities that should (or should not) apply Standards; and</p> <p>(b) there may be some merit in specifically identifying particular types of transactions that are not within the scope of AASB 17, but that this should be addressed by applying other indicators [Question S5].</p>	<p>The Board agreed that:</p> <p>(a) it should not be necessary to resort to specifically identifying particular public sector schemes that are not within the scope of PBE IFRS 17; and</p> <p>(b) there may be some merit in specifically identifying particular types of transactions that are not within the scope of PBE IFRS 17, but that this should be addressed by applying other indicators [Question S5].</p>	Yes	<p>The Board's decisions are effectively the same.</p> <p>Unless members have further comments on these indicators, staff suggest there is no need for additional Board discussion about scoping out specific public sector schemes.</p>

S8	Identifiable coverage period		
<p>Brief background: The Boards discussed the fact that a key feature of an insurance contract in the context of AASB 17/PBE IFRS 17 is the existence of an identifiable coverage period, which is defined as "The period during which the entity provides insurance contract services. This period includes the insurance contract services that relate to all premiums within the boundary of the insurance contract".</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that the existence of an identifiable coverage period would be a useful indicator for determining when AASB 17 should apply in the public sector [Question S8].</p>	<p>The Board agreed that the existence of an identifiable coverage period would be a useful indicator for determining when PBE IFRS 17 should apply in the public sector [Question S8].</p>	Yes	<p>The Board's decisions are effectively the same.</p> <p>Unless members have further comments on this indicator, staff suggest there is no need for additional Board</p>



S8	Identifiable coverage period		
			discussion about it until the Boards have a (staff-prepared) draft consultative document to review.

S9	Fault-based versus no-fault-based		
<p>Brief background: The Boards noted that, in respect of many classes of risk, for-profit private sector insurers attribute fault in determining whether claims are valid or the amount of those claims. For example, a policyholder that is negligent may receive a lower claim benefit than a policyholder who is not at fault, which is designed to avoid moral hazard issues. Accordingly, it could be argued that no-fault schemes are more likely to not be insurance activities. However, while public sector entities are generally more likely to operate no-fault schemes, for-profit private sector insurers are also involved in no fault insurance schemes.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
The Board decided that the fault-based versus no-fault nature of coverage is not a useful indicator for determining when AASB 17 would apply in the public sector [Question S9].	The Board agreed that the fault-based versus no-fault nature of coverage is not a useful indicator for determining when PBE IFRS 17 would apply in the public sector [Question S9].	Yes	The Board’s decisions are effectively the same. Unless members have further comments on this indicator, staff suggest there is no need for additional Board discussion on this topic.



S10, S11 & S12	Contract or no contract		
<p>Brief background: The Boards discussed a range of perspectives, including:</p> <ul style="list-style-type: none"> (a) the principle of transaction neutrality would imply that public sector entities with insurance risk created by statute, that are in substance similar to public and private sector entities with insurance risk created by contracts, should be accounted for in the same way; (b) under some Standards, such as AASB 9/PBE IPSAS 41, there is a ‘bright line’ between ‘contracts’ and statutory arrangements; (c) virtually identical forms of some types of coverage are provided under either statutory or private sector (contractual) arrangements and, accordingly, the insurance Standards would apply by analogy to statutory arrangements under the accounting policy hierarchy; (d) the purpose of having a statutory (rather than contractual) arrangement is generally to mandate that people obtain coverage from the one entity (usually a public sector entity); (e) individuals and entities are required by statute to pay for some types of insurance coverage from private sector insurers (such as workers’ compensation coverage) and the arrangements are effectively a combination of contractual and statutory terms; (f) for some types of risks, the existence of a stand-alone contract that includes substantive information about risks and benefits (well beyond the detail in any relevant enabling legislation or regulations), is a strong indication of an insurance contract. 			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <ul style="list-style-type: none"> (a) the focus should be on whether there is a ‘binding arrangement’ (described in the Conceptual Framework) and not on whether there is a ‘contract’ (rather than statute/regulation) [Question S10]; (b) the existence of a stand-alone ‘binding arrangement’ that includes substantive terms relating to risks and benefits should be an indicator for determining when AASB 17 would apply in the public sector, while acknowledging that arrangement might incorporate elements contained in statutes/regulation related to the public sector entity’s activities [Question S11]; (c) commentary might usefully be included in guidance or the Basis for Conclusions, to 	<p>The Board agreed that:</p> <ul style="list-style-type: none"> (a) the focus should be on whether there is a ‘binding arrangement’ (described in the Conceptual Framework) and not on whether there is a ‘contract’ (rather than statute/regulation) [Question S10]; (b) the existence of a stand-alone ‘binding arrangement’ that includes substantive terms relating to risks and benefits should be an indicator for determining when PBE IFRS 17 would apply in the public sector [Question S11]; (c) potentially include specific references to binding arrangements in guidance or the Basis for Conclusions, to help ensure clarity about PBE IFRS 17 applying to binding arrangements that are statutory in nature (and meet the other relevant indicators determined by the Board for inclusion in PBE IFRS 17) [Question S12]. 	<p>Yes</p>	<p>The Board’s decisions are effectively the same.</p> <p>Unless members have further comments on the significance of the existence of a ‘contract’ as an indicator, staff suggest there is no need for additional Board discussion about it until the Boards have a (staff-prepared) draft consultative document to review.</p>



<p>help ensure clarity about what could constitute binding arrangements that are statutory in nature [Question S12].</p>			
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S13 & S14	Source and extent of funding		
<p>Brief background: The Boards discussed a range of perspectives, including:</p> <ul style="list-style-type: none"> (a) there are two aspects to funding; (i) the source of funding and whether this is those who stand to benefit from the arrangement or those who exacerbate the risks to potential beneficiaries; and (ii) the revenue being sufficient and/or the benefit levels being managed such that the scheme is self-sustaining; (b) the criteria in IPSAS 42 for being eligible to apply the ‘insurance approach’ is that a scheme is intended to be ‘fully funded’ from contributions and levies; (c) the meaning of ‘fully funded’ is not necessarily clear for entities that aim to be self-funded over the long term, but that in any given year might be: overpricing to make up for past deficits; underpricing to use up past surpluses; or underpricing to suit current economic conditions; (d) ‘substantially self-funded’ and/or ‘dedicated funding’ are possible criteria; (e) references to ‘fully-funded’ and ‘substantially self-funded’ can be difficult to interpret; (f) all of the public sector entities in either Australia or New Zealand that are currently applying the insurance standards receive contributions from participants either directly or indirectly via levies, while some of these entities might require top-up funding from consolidated revenue from time-to-time; (g) receipt of contributions as a criterion would rule out the application of the insurance standards to a range ‘social benefits’ such as aged pension or universal healthcare activities, but possibly not schemes such as Medicare in Australia, which at least notionally has dedicated levy funding; (h) the extent to which a participant in a scheme is responsible for paying a contribution might indicate something about the strength of that relationship and its likeness to a policyholder/insurer relationship. 			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that:</p> <ul style="list-style-type: none"> (a) the existence of a contribution from a scheme participant should be an indicator for determining when AASB 17 should apply in the public sector [Question S13] and that contribution should be: <ul style="list-style-type: none"> (i) associated with the risks covered – for example, a motor vehicle owner contributes in return for being registered to use roads; and (ii) substantive relative to the risks being transferred; 	<p>The Board agreed that:</p> <ul style="list-style-type: none"> (a) the existence of a contribution from a scheme participant should be an indicator for determining when PBE IFRS 17 should apply in the public sector [Question S13]; (b) the absence of any dedicated funding (from participants or government) for an activity should be an indicator that PBE IFRS 17 	<p>Yes</p>	<p>The Board’s decisions are effectively the same.</p> <p>The AASB sought more detail on the association between the funding and risk.</p> <p>The AASB mentioned the case of a government-capitalised ‘closed fund’ scheme, which should probably be excluded from applying the insurance standards. This could include a fund established to meet compensation claims from a specific past</p>



S13 & S14	Source and extent of funding		
<p>(b) the absence of any dedicated funding (from participants or government) for an activity should be an indicator that AASB 17 does not apply [Question S14]; and</p> <p>(c) references to ‘fully-funded’ and ‘substantially self-funded’ are probably not useful because they are difficult to interpret.</p> <p>The Board also noted that a scheme might be fully or largely funded from government contributions and effectively be self-sustaining and not need substantive contributions from participants – please refer to the Board deliberation on ‘Assets set aside for benefits’.</p>	<p>does not apply [Question S14]; and</p> <p>(c) references to ‘fully-funded’ and ‘substantially self-funded’ are probably not useful because they are difficult to interpret.</p>		<p>or future type of event, such as emergency assistance in response to natural disasters or the recovery of credit losses from financial crime.</p> <p>Unless members have further comments on these indicators, staff suggest there is no need for additional Board discussion about them until the Boards have a (staff-prepared) draft consultative document to review.</p>

S18	Assets set aside for benefits		
<p>Brief background: The Boards discussed the following:</p> <p>(a) IPSAS 42 identifies the existence of assets being held in a separate fund, or otherwise earmarked, and restricted to being used to provide benefits as being an indicator of insurance contracts, (as opposed to benefits being funded from general taxation).</p> <p>(b) The implication of this criterion is that a benefit funded from general taxation is more likely to be a social benefit and not insurance. It is related to some extent to the issues around the source and extent of funding (S13 & S14 above) because funds that are sourced from scheme participants are more likely to be set aside in a scheme fund than would the case for an appropriation of funds from general taxation.</p> <p>(c) The existence of a separate fund might make it more likely that the scheme is operated and managed as an insurance entity. This is supported by feedback received by staff in recent stakeholder outreach, with many entities having been established to be self-sustaining and to aim for an overall breakeven result from all of their activities, including investment performance. This is a characteristic of private sector for-profit insurers, many of which routinely operate on a long-term sustainable basis by generating underwriting losses that are more than offset by investment returns.</p> <p>(d) It was acknowledged that some non-insurance liabilities might have separate funds earmarked for their settlement – for example funds within the Australian Government Future Fund are earmarked to meet the defined benefit superannuation liabilities.</p>			
AASB	NZASB	Same?	Staff comments/suggestions
<p>The Board decided that the existence of assets being held in a separate fund, or an entity having access to earmarked assets, that are restricted to being used to provide benefits is a useful indicator for determining when</p>	<p>The Board agreed that the existence of assets being held in a separate fund, or an entity having access to earmarked assets, that are restricted to being used to provide benefits is a useful indicator for determining when</p>	<p>Yes</p>	<p>The Board’s decisions are effectively the same.</p> <p>Unless members have further comments on this indicator, staff suggest there is no need for additional Board discussion on this topic until</p>



S18	Assets set aside for benefits		
AASB 17 would apply in the public sector [Question S18].	PBE IFRS 17 would apply in the public sector [Question S18].		the Boards have a (staff-prepared) draft consultative document to review.



Appendix C: Decisions of the Boards at their April/May 2021 meetings on risk adjustments

C1 The table below outlines the decisions of the AASB and the NZASB at their April and May 2021 meetings on accounting for risk adjustments by public sector entities under AASB 17/PBE IFRS 17. Extracts along the lines of the meeting minutes are quoted in the table.

R1	Overall approach to risk adjustments
	<p>Brief background: The Boards were presented with three possible approaches to recognising and measuring risk adjustments (which represent the compensation the entity requires for bearing insurance risk):</p> <ol style="list-style-type: none"> (1) apply AASB 17/PBE IFRS 17 unmodified; (2) prohibit recognition of a risk adjustments (that is, risk adjustment = zero); (3) require risk adjustments to be measure at a specified level, such as 75% probability of adequacy (PoA). <p>In relation to risk adjustments in general, the Boards noted that they can reveal useful information about the relative riskiness associated with insurance liabilities.</p> <p>In respect of approach (1), the Boards noted:</p> <ol style="list-style-type: none"> (a) applying AASB 17/PBE IFRS 17 unmodified could facilitate benchmarking with private sector insurers; (b) different public sector entities hold different views on whether they should include a risk adjustment in measuring their claim liabilities and approach (1) would allow each entity to determine its position consistent with its own objectives, management philosophy, level of risk aversion, and nature of their claim liabilities; (c) a for-profit public sector entity could recognise a risk adjustment on the basis that it expects to profit from bearing risk; while a not-for-profit entity might not recognise a risk adjustment because it does not seek to profit from bearing risk; (d) public sector entities might incur considerable costs in trying to determine whether they should be compensated for bearing risk and, if so, the extent of that compensation. <p>In respect of approach (2), the Boards noted:</p> <ol style="list-style-type: none"> (a) it can be argued public sector entities in a monopoly position don't bear insurance risk as they can adjust future premiums/levies in light of past losses/profits; (b) zero risk adjustments would avoid the effect of (routinely) creating short term losses and longer-term profits (as risk adjustments unwind); (c) it would remove the burden of having to determine the risk adjustment; (d) some public sector entities are keen to recognise risk adjustments because they see risk management as central to their role; <p>In respect of approach (3), the Boards noted:</p> <ol style="list-style-type: none"> (a) existing practice is largely to apply a 75% PoA in measuring risk margins, which is relatively easy to calculate; (b) a 75% PoA across all entities would still reveal the relative riskiness of different entities' claims liabilities.



R1	Overall approach to risk adjustments		
AASB	NZASB	Same?	Staff comments
<p>The Board decided that public sector entities applying AASB 17 should be required to apply the risk adjustment requirements with no specific public sector modifications, with the Board noting that judgement would need to be applied by public sector entities to determine the level of compensation they require for bearing the risk of uncertainty associated with liabilities for incurred claims – that is, Approach (1) [Question R1].</p>	<p>The Board noted that Agenda paper 5.3 includes some information on the benefits of measuring and recognising and/or disclosing risk adjustments outlined in the IFRS 17 Basis for Conclusions. However, the Board agreed that, before it could make decisions on the questions posed in Agenda paper 5.3, more information is needed on the likely costs and benefits to public sector entities of applying the PBE IFRS 17 approach, to be considered at a future Board meeting [Question R1].</p>	<p>No</p>	<p>The NZASB was more concerned than the AASB about the costs to public sector entities of applying IFRS 17 without modifications.</p> <p>Please refer to paragraphs 10–19 above.</p> <p>While NZASB ED 2018-7 proposed no additional PBE modifications in respect of risk adjustments, there was a strong theme among respondents that risk adjustments may not be relevant to many public sector entities; or that, if risk adjustments were required, explicit guidance on determining ‘compensation’ in a public sector context would be needed. Their reasons included:</p> <ul style="list-style-type: none"> (a) risk adjustments are predicated on the liability being an estimated amount a third party would likely want to be paid to assume the risk of settling claims, which is akin to an exit price; however, the liabilities will be settled by the entity itself; (b) if the entity seeks to fund a liability that includes a risk adjustment, in order to report a break-even result, the entity would need to set levies and other forms of income at amounts that (on average) would be higher than necessary; and (c) if the entity is funded to meet a best estimate liability, including a risk adjustment in the liability would automatically result in reported losses, which may never eventuate. <p>To some extent, many Australian stakeholders are also concerned about (b) and (c).</p>



R2	Guidance on measuring risk adjustments		
<p>Brief background: The Boards noted that IFRS 17 contains little guidance on determining risk adjustments and subsequent IFRS 17 Transition Resource Group meetings have agreed to provide only limited guidance on selected issues (such as, that risk adjustments might differ within the one Group of entities depending on whether the Group or subsidiary perspective is taken).</p> <p>The Boards also noted that there are features of public sector entities that differ from private sector entities and affect the context in which risk adjustments might be determined, including:</p> <ul style="list-style-type: none"> (a) implicit or explicit government guarantees; (b) monopoly position in a particular jurisdiction and the potential to adjust future premiums/levies in light of past losses/profits; (c) compulsory for participants/policyholders; and (d) in most cases, no intention of making profits from bearing insurance risks and, therefore, no concept of needing to be compensated for risk in any given period. 			
AASB	NZASB	Same?	Staff comments
The Board decided that there should be no need for public-sector-specific guidance on how such risk adjustments would be accounted for by a Group that consolidates an entity applying AASB 17 [Question R2];	As above – more information is needed on the likely costs and benefits to public sector entities of applying the PBE IFRS 17 approach [Question R2].	No	Please refer to comments above on R1
R3	Disclosure requirements		
<p>Brief background: The Boards noted that AASB 17/PBE IFRS 17 contains the following disclosure requirements relating to risk adjustments:</p> <ul style="list-style-type: none"> (a) all claim liability reconciliations must separately show movements for risk adjustments [100(c)(ii)] – the Boards observed that substantially the same requirement applies under the existing insurance standards; (b) change in risk adjustment due to current service (recognised in the period) [104(b)(ii)] – the Boards observed that there is no similar disclosure under the existing insurance standards; (c) the approach used to determine the risk adjustment [117(c)(ii)] – the Boards observed that substantially the same requirement applies under the existing insurance standards; and (d) the confidence level used to determine the risk adjustment. If the entity uses a technique other than the confidence level technique, disclose the technique used and the confidence level corresponding to the results of that technique [119] . The Boards observed that the existing insurance standards require disclosure of the probability of adequacy. 			
AASB	NZASB	Same?	Staff comments
The Board decided that public sector entities applying AASB 17 should apply the disclosure requirements relating to risk adjustment with no specific public sector modifications [Question R3].	As above – more information is needed on the likely costs and benefits to public sector entities of applying the PBE IFRS 17 approach [Question R3].	No	Please refer to comments above on R1