



Compensation of last resort (“CSLR”)

AASB 17 TRG Meeting

Presenters

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Australian Government

Australian Accounting Standards Board

CSLR - Background

- Designed to make payments to eligible customers on a last resort basis (e.g.: financial institution is insolvent) where determinations by the Australian Financial Complaints Authority (AFCA) remain unpaid.
- On 22 June 2023 legislation was passed establishing the CSLR which will be funded by 2 levies:
 - a. **An initial levy (special levy)**
 - b. **An ongoing levy (annual levy)**

Initial levy

Minister makes a determination that it is required. In scope if:

- a) APRA regulated in last 12 months
- b) In scope of Tax Act in tax year 2021-2022
- c) 1 of the top 10 entities by taxable income of those in (a) and (b)

If the entity meets the criteria above the levy payable is % share of taxable income of the industry * \$250m
Eligible entities to be notified by April 2024 based on updated taxable income information

Ongoing levy

Imposed on specific subsectors per Levy Regulations (reg 6), which include:

- Credit intermediaries
- Credit providers
- Licensees providing personal advice on certain financial products and securities dealers

The first levy period will be from April 2024, and there is a levy cap at scheme level and subsector levels

Not applicable to insurers



Initial levy – top 10 based on 2020-21 tax year

		Total income	Taxable income	Tax payable	Share of total income	
					%	\$250m
1	AMP	78,219,166,840	1,855,169,504	235,471,939	33.90	84,752,792
2	CBA	29,362,141,959	10,664,373,419	3,136,017,782	12.73	31,814,754
3	WBC	27,345,013,853	7,749,791,320	2,317,260,817	11.85	29,629,135
4	ANZ	20,927,821,232	5,672,322,322	1,631,567,812	9.07	22,675,916
5	NAB	18,326,284,740	4,524,511,334	1,349,935,574	7.94	19,857,074
6	IAG	16,233,517,310			7.04	17,589,499
7	MQG	13,530,563,583	1,707,597,517	416,498,990	5.86	14,660,768
8	SUN	12,805,899,658			5.55	13,875,573
9	QBE	7,337,857,457			3.18	7,950,787
10	TAL	6,639,136,612	155,357,872	45,833,531	2.88	7,193,702
		230,727,403,244				250,000,000

The composition of the 'top 10' could change



Accounting treatment of one-off levy

1) As a provision (AASB 137)

- **Present obligation as a result of past event?** (Past event = legislation, obligation – if in top 10)
- **Reliable estimate?** (Current estimate based on 2020-21 taxable income)

2) As part of the insurance contract liability – AASB 17

B65 “Cashflows within the boundary of an insurance contract that relate directly to the fulfilment of the contract...”

(i) transaction-based taxes (...) and levies... that arise directly from existing insurance contracts, or that can be attributed..”

3) Other liability

If provision criteria not met (e.g.: estimate not sufficient reliable, not sure will remain in top 10), recognise the liability at the point that there is a present obligation leading to a probable outflow of resources (i.e.: At the point notified by the CSLR)

In the meantime, potentially make ‘contingent liability’ disclosures

Could be considered a licence condition, part of doing business as an insurer, similar to ASIC/ APRA fees
However, levy is not applicable to insurance services



Accounting treatment of one-off levy

Do you think the accounting treatment should be under:

- 1) AASB 137
- 2) AASB 17;
- 3) Neither – raise as a liability at the point the invoice is issued by CSLR when the 2021-22 taxable income is available

