



Report on AASB-NZASB project: Insurance Activities in the Public Sector

1. Board meetings

| Activity / Topic | AASB | NZASB ¹ | Comments |
|---|----------------------|----------------------|---|
| Scope: public sector activities to which AASB 17/PBE IFRS 17 should apply | Apr-2021 Sep-2021 | Apr-2021 Sep-2021 | Agreed criteria, including: similar risks covered (as in private sector); arrangements are 'binding'; identifiable coverage period; participant contributions; management normally associated with insurance; and earmarked assets. |
| Application date: for affected public sector entities | Sep-2021 | Sep-2021 | In view of planned timetable, AASB agreed to propose extending mandatory application for public sector entities to periods beginning on or after 1 July 2025, with early application permitted. |
| Risk adjustment: relevance and measurement | Apr-2021 Sep-2021 | May-2021 Sep-2021 | AASB agreed no specific public sector modifications are needed. NZASB sought more information on costs/benefits of applying 'compensation' approach. |
| Discounting/inflating: used to measure insurance liabilities | Jun-2021 | Jun-2021 | Agreed no specific public sector modifications are needed. |
| PAA eligibility: criteria for using 'simplified' measure of liabilities for remaining coverage | Jun-2021 | Jun-2021 | Agreed guidance needed to help apply eligibility criteria in a public sector context, such as: <ul style="list-style-type: none"> 'practical ability' includes assessing the ability of its controlling government, and any relevant Minister(s) in their managerial capacities based on existing and substantively enacted regulation the fact a monopoly might be regarded as obliged to stand-ready to insure future participants/policyholders, of itself, would not affect the coverage period for PAA eligibility. guidance on when a long-term view is taken on setting pricing and benefits might have implications for PAA eligibility. |
| Captive insurers that should have GPFS | Sep-2021 | Sep-2021 | Agreed no specific public sector modifications are needed. |
| Non-insurance costs: classification | Sep-2021 | Sep-2021 | Agreed no specific public sector modifications are needed. |
| Onerous contracts: basis for recognition | Sep-2021 | Sep-2021 | Agreed specific public sector modifications are needed, including: <ul style="list-style-type: none"> exemption from AASB 17.16 to divide a portfolio into onerous versus non-onerous sub-groups, but require disclosure about pricing |

¹ This paper has been prepared as at 16 September – the NZASB meeting is scheduled for 21 September. Accordingly, the decisions recorded in the table after June 2021 are based subject to change.



| Activity / Topic | AASB | NZASB ¹ | Comments |
|--|----------------------|----------------------|---|
| | | | <ul style="list-style-type: none"> • exemption from AASB 17.22 to divide a portfolio of insurance contracts into annual cohorts based on their issue date • modify AASB 17.25 so timing of recognition is not dependent on when contracts become onerous. |
| Investments backing insurance liabilities – measurement | Sep-2021 | Sep-2021 | Agreed no specific public sector modifications are needed. |
| Agree on Consultation document | Planned Nov-2021 | Planned Dec-2021 | |
| Issue Consultation document | Planned Feb-2022 | Planned Feb-2022 | |
| Consider feedback on Consultation document and proposals for addressing issues raised | Planned Apr-2022 | Planned Apr-2022 | |
| Address any sweep issues and agree on revised Standards | Planned May-Jul-2022 | Planned May-Jul-2022 | |
| Issue revised Standards | Planned Sep-2022 | Planned Sep-2022 | |

2. Reasoning on onerous contracts

2.1 In respect of AASB 17.16 and 20, the AASB noted:

- (a) due to the nature of the arrangements in a public sector context, under which pricing is designed to achieve a breakeven result after investment earnings, most contracts are routinely onerous;
- (b) given the routine nature of onerous contract losses among public sector entities, the IASB's logic behind disaggregating portfolios of contacts into onerous and non-onerous sub-groups to help ensure the up-front recognition of losses is not particularly relevant;
- (c) the costs of sub-grouping between onerous and non-onerous contracts could exceed any benefits;
- (d) the practical expedient available in AASB 17.20 would usually provide relief from sub-grouping between onerous and non-onerous contracts; however, there would be occasions when this practical expedient might not be available.

2.2 In respect of AASB 17.22, the AASB noted:

- (a) Given that most of the arrangements in the public sector are for one year of coverage and arrangements year after year are ordinarily onerous, the annual cohort requirement would probably not have a major impact on the extent to which onerous versus non-onerous contracts are revealed. However, entities would be affected in the event that an entity cross-subsidised contracts over successive years and an entity was, for example, gradually implementing needed price increases.



- (b) Many public sector entities manage on an accident year basis – that is, they track the progress of claims arising in a given period. In contrast the requirement in AASB 17.22 is effectively an underwriting year basis.

- 2.3 In respect of AASB 17. 25(c), the AASB noted initial recognition of contracts from the time they are binding and are known to be onerous would often result in public sector entities recognising all or most of the losses from the next year's contracts in the current year. This would particularly be the case for contracts that cover the same period as the financial statements (1 July to 30 June).

- 3. Field testing scope criteria**
- 3.1 Staff are seeking expressions of interest from stakeholders to test the proposed criteria for determining which activities are within the scope of AASB 17/PBE IFRS 17.

- 4. International**
- 4.1 In September 2021, staff spoke with HM Treasury representatives about their work on applying IFRS 17 in the UK public sector.