



Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
14 September 2022
2pm – 4pm

Objective:

- Update from APRA on reporting and prudential standards, and APRA Connect
- Update on public sector insurance project
- Update on Tax (ICA/FSC)
- Industry papers discussion: Updated ICA paper on government imposts
- Update from the Private Health Insurance (PHI) focus group
- Update from Actuaries Institute Taskforce for AASB 17
- Update from Accountants and Actuaries Liaison Committee (AALC)
- AOB
 - Other AASB TRG focus groups
 - IFRIC update
 - AASB/TRG – proposed survey of AASB 17 disclosure policy choices and judgements

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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	
<ul style="list-style-type: none">• APRA will release a complete package that consists of a response paper and reporting standards by the end of September 2022 [post meeting note: actual date 27 September 2022], for Level 1 insurers and Level 2 insurance groups, which include the general insurers, PHI, life insurers and friendly societies. In addition, APRA is planning to provide information on APRA Connect.• In preparing the package APRA considered all comments received in light of the objectives intended for APRA Quantitative Impact Study (QIS) and much work is still underway internally in deciding the relevant metrics and monitoring process from a supervisory perspective.• The Chair asked whether the results in QIS submissions received were consistent with expectations, i.e., relatively stable capital across the market. APRA representative responded yes, however, noted that QIS was done on a best endeavour basis and that accounting policy and potential interpretation changes could have a flow-on impact in the future.• One member asked about the timing of the effective date.	

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<ul style="list-style-type: none"> ○ APRA representative responded by confirming the 1 July 2023 which took into account the wide spectrum of reporting dates as noted in the previous 2021 consultation paper. ● The Chair asked whether accounting policy choices under AASB 17 will equally be allowed under APRA’s capital and reporting framework, such as the option to have a single line item for reinsurance expense and reinsurance income. <ul style="list-style-type: none"> ○ APRA representative responded that they have largely tried to align with the accounting policy choices. ● One member queried the quantum of changes relative to those in the draft reporting standards. <ul style="list-style-type: none"> ○ APRA representative responded that they are broadly aligned; however, there are areas where APRA needed to refine or clarify their approach. ● One member asked whether there are any outstanding items pending further consultation. <ul style="list-style-type: none"> ○ APRA representative explained that there is one item seeking feedback in the response paper; however, further details were not provided. A separate consultation may be conducted for APRA Connect in 2023. ● The Chair asked what percentage of the market completed the QIS. <ul style="list-style-type: none"> ○ APRA representative responded that around 70% of the overall industry participated. ● One member asked whether the application of the prudential standards from 1 July 2023 would require comparatives. <ul style="list-style-type: none"> ○ APRA representative responded that comparatives would not be required as it would be too burdensome. <p><u>Next steps</u></p> <ul style="list-style-type: none"> ● APRA plans to provide a session on APRA Connect at a future TRG meeting. 	
Updates from public sector insurance project	ATT1
<ul style="list-style-type: none"> ● The AASB and the NZASB met in August 2022 and made a number of decisions in relation to the proposed amendments and guidance for applying AASB 17 in a public sector context. ● The two Boards will consider the balance of the issues that were outlined in Exposure Draft 319 <i>Insurance Contracts in the Public Sector</i> (ED 319) in their upcoming Board meetings, respectively. ● AASB staff provided the following update on the Boards’ re-deliberations to date: <ul style="list-style-type: none"> ○ Scope – based on respondents’ feedback an ‘identifiable coverage period’ and ‘enforceable contract’ are identified as prerequisites, with the ‘similarity of risks/benefits’ and the ‘source/extent of funding’ as two indicators. If still unclear after the consideration of these, there are ‘other considerations’, being ‘management practices’ and ‘assets held to pay benefits’. There will be some guidance on how to apply these in a ranked fashion. ○ Subgrouping – given their prevalence in the public sector, onerous contracts are not required to be grouped separately, nor are contracts issued more than a year apart i.e., portfolio is the unit of account. ○ Initial recognition – not required to recognise contracts which are known to be onerous prior to coverage commencing. 	

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	<ul style="list-style-type: none"> ○ Risk adjustment for non-financial risk (risk adjustment) – the NZASB abandoned the proposal to require rebuttable 75% probability of sufficiency resulting in no formal modifications. However, the Boards have been asked to consult various stakeholder groups, including actuaries, about whether there are circumstances in which the risk adjustment is zero, for example, due to government guarantees whereby insurance contracts are not priced to profit from bearing risk and/or entities are indifferent between certain fixed cash flows and uncertain cash flows with the same central estimate. ○ Contract boundary/coverage period – some guidance is provided in ED 319, but several stakeholders were concerned that PAA eligibility testing would require applying the general model to prove eligibility. The Boards determined that PAA would be an accounting policy choice that could be applied without the need to consider eligibility criteria. ○ Captive insurers – clarity was sought on disparate reporting by agencies managing the government’s own risks. An accounting policy choice is proposed to be permitted for administered item disclosures under AASB 1050 <i>Administered Items</i>. <ul style="list-style-type: none"> ● One member expressed support for the current state of proposals and acknowledged the work that went into the proposed standard. ● One member was concerned that some similar entities could be treated differently as a result of applying an identifiable coverage period as prerequisite, i.e., standalone nominal defendant funds that do not have a defined coverage period. <ul style="list-style-type: none"> ○ Whilst acknowledging that could potentially be the case for some entities, AASB staff noted that the accounting outcome of falling under another standard such as AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> may not significantly differ from applying AASB 17 if the risk adjustment is small. ● The Chair asked whether guaranteed renewability would be a factor in determining the coverage period. <ul style="list-style-type: none"> ○ AASB staff explained that factor was ruled out in determining the coverage period given that many public sector insurers are in a monopoly position and it would not be relevant to account for contracts as if they were ‘perpetual’. ● The Chair asked whether the intention of allowing an accounting policy choice to account for long term contracts applying PAA was to relieve public sector insurers from the need to build systems or processes necessary for the general model. <ul style="list-style-type: none"> ○ AASB staff said that was the intent subject to the Boards’ approval. ● The Chair asked whether there are any areas where there are potential implications from the interaction between private sector and public sector entities, i.e., private sector insurer and related public sector reinsurer applying AASB 17 and AASB 17 with public sector modifications, respectively. <ul style="list-style-type: none"> ○ AASB staff was of the view that applying the public sector modifications by the public sector reinsurer such as the Australian Reinsurance Pool Corporation (ARPC) would not lead to significant asymmetry in accounting given ARPC’s right to reprice terrorism risks every six months. ● One member expressed concern about the potential impact of not applying a sector-neutral standard-setting approach in modifying AASB 17 for public sector insurers that are operating in the same market as their private sector counterparts.

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<ul style="list-style-type: none"> ○ AASB staff explained that each of the modifications is based on public sector specific circumstances as outlined in the Board papers. <p><u>Next steps</u></p> <ul style="list-style-type: none"> ● Following September 2022 AASB meeting a public sector focus group meeting will be held before the October 2022 NZASB meeting to keep stakeholders informed of the latest re-deliberations. ● A fatal flaw draft is scheduled to be released shortly after the NZASB meeting, with a view to making available a draft standard by November or December 2022. 	
Update on Tax (ICA/FSC)	ATT2 and ATT3
<ul style="list-style-type: none"> ● A representative from the Insurance Council of Australia (ICA) provided background and highlighted issues for general insurers: <ul style="list-style-type: none"> ○ Given the interaction between Division 321 of the Tax Act 1997 with the current accounting standard, general insurers will be required to have two sets of books if the Tax Act is not amended which would lead to regulatory costs. ○ Discussion of issues with the Australian Taxation Office (ATO) that commenced in 2021 has lost traction due to the Treasury going into caretaker mode and the change of government. ○ Priority is to resume conversations to re-engage the Treasury. To this end, the ICA and a number of organisations including the Financial Services Council (FSC) submitted a joint letter to the Treasury. ● Representatives from the FSC also provided an update from a life insurance perspective: <ul style="list-style-type: none"> ○ In the absence of transitional provisions, a number of life insurers are to face a large tax deduction from deferred acquisition cost (DAC) write-off to the extent DAC is derecognised upon entry into AASB 17. ○ Preference is for transitional provisions to be introduced as was the case for Taxation of Financial Arrangements (ToFA) to minimise impact on transition and provide certainty with respect to opening transition balances to preparers and auditors. ● One member asked if there is a contingency plan should the tax law not be amended before the AASB 17 effective date. <ul style="list-style-type: none"> ○ FSC representatives indicated that the likely resolution will be via a press release to message the government's intent to legislate and provide transition support for dealing with AASB 17 impacts. ● FSC representative also mentioned the potential impact of DAC write-off on capital. <p><u>Next Steps</u></p> <ul style="list-style-type: none"> ● The Chair encouraged the FSC, ICA, the ATO and the AASB to work together to come up with a plan on how to have Treasury address the issues. 	
Industry papers discussion: updated ICA paper on government imposts	ATT4A and ATT4B
<p><u>Background</u></p>	

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<ul style="list-style-type: none"> • At its June 2022 meeting, the AASB 17 TRG considered a paper from the Insurance Council of Australia working group on accounting for taxes and levies under AASB 17 <i>Insurance Contracts</i>. • A July 2022 version of the paper was circulated following the meeting and members were advised that the paper might be revised from time to time based on additional information. • One stakeholder has provided additional information about the Tasmanian Emergency Service Levy (ESL), and it is proposed to change the commentary in the paper and reclassify this ESL from Section B (a cost of the insurer issuing contracts) to Section A (amounts collected on behalf of a 3rd party), given its characteristics are similar to those in Section A and the likelihood of it being immaterial. <p><u>TRG discussion</u></p> <ul style="list-style-type: none"> • TRG members were asked for their views on the classification of the Tasmanian ESL and the withholding tax on foreign reinsurers, respectively. • Two members agreed with this reclassification of the ESL, however, one of them noted that there would be practical implications as it would be different from the current treatment under AASB 1023 <i>General Insurance Contracts</i>. • On the classification of the withholding tax, one member was of the view that it would form part of an insurer's fulfilment cash flows, i.e., part of reinsurance premium and expenses based on his reading of contracts, even though it is paid directly to the ATO on behalf a reinsurer. • One member highlighted the need by preparers in the industry to consider the relative merits of the proposed treatments with a view to being unified to avoid diversity in practice. <p><u>Next steps</u></p> <ul style="list-style-type: none"> • TRG members to provide comments on the withholding tax and any other aspects of the paper for AASB staff to relay to the ICA. • The Chair specifically requested that TRG members from large general insurers provide feedback at the next Accountants and Actuaries Liaison Committee (AALC) meeting scheduled to be held on 12 October 2022. 	
PHI update	ATT5
<ul style="list-style-type: none"> • The deferred claims liability (DCL) is currently recognised on PHIs balance sheets for claims incurred but not serviced due to disruptions from COVID lockdowns. • The PHI Focus Group has been discussing this topic during the last couple of months and there has been broad agreement that the anticipated treatment under AASB 17 will be: <ul style="list-style-type: none"> ○ Liability for Incurred Claims (LIC) will include claims that have occurred based on the contractual arrangements and the claims that occur in each of the coverage years (i.e., are within the contract boundary). ○ On that basis, there is no DCL under AASB 17 and the DCL will likely be a transition adjustment. ○ There is recognised complexity in how givebacks being provided by PHI will be accounted for under AASB 17, and this will come down to the underlying terms and conditions of each give-back. 	

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<ul style="list-style-type: none"> ○ The aim of sharing these discussion points with members is to urge PHIs to reach out to their auditors and, if relevant, AASB 17 advisors to ensure they are aligned in approach based on their specific facts and circumstances. ● Separately, all PHIs still need to consider the ACCC requirement that they do not profit from Covid-19 and as such each PHI will need to demonstrate how this requirement is being satisfied (e.g., via claims rebound, give backs, changed terms or benefits, lowered premiums etc). ● The Chair encouraged this update to be shared widely and PHIs to have a discussion with their auditors. <p><u>Next steps</u></p> <ul style="list-style-type: none"> ● PHI focus group plans to discuss financial statement proforma accounts and approach to disclosures at its next meeting. ● Practical application of ‘facts and circumstances’ for onerous contract grouping under Premium Allocation Approach will also be on the agenda. 	
<p>Institute of Actuaries Task Force update</p> <ul style="list-style-type: none"> ● The Actuaries Institute Task Force on AASB 17 is focusing on the following two key broad areas: <ul style="list-style-type: none"> ○ education – provide a large number of educational sessions (20-30) on both the technical and high-level management issues regarding implementation of AASB 17– currently working with the Institute of Actuaries on a useable platform by leveraging the educational platform; and ○ updating various actuarial information notes and professional standards for AASB 17 and LAGIC changes. ● The Chair asked if the information note referred to is the AASB 17 Information Note and the Task Force representative clarified these included topical notes and papers covering matters such as asymmetry and discount rates for life insurers. AASB 17 Information Note will likely be updated next year before the Task Force disbands. ● One member asked about the timeline for the release of the information notes and professional standards. The representatives said that the Task Force is working to update professional guidance and information notes by 1 January 2023, additionally noting that: <ul style="list-style-type: none"> - Professional standard for life will undergo a minor tweak including expense allocation. - Professional standard for health will take longer to be finalised pending the transition of APRA capital rules which have not yet been finalised. 	
<p>AALC update</p> <ul style="list-style-type: none"> ● AALC is an informal working group that discusses technical or implementation issues in AASB 17 implementation. ● The group recently discussed coverage units for annuity type contracts and multi-currency contracts which are the two topics looked at by the IFRS Interpretations Committee. ● The Chair emphasised that the AALC is open to anyone wishing to join as guest and raise issues in an informal setting. <p><u>Next steps:</u></p>	

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<ul style="list-style-type: none"> AALC will be discussing the government impost issue at its next meeting scheduled to be held on 12 October 2022. 	
AOB	ATT6A and ATT6B
<p>Other focus groups</p> <ul style="list-style-type: none"> Both VFA and Medical Indemnity Focus groups have not met for some time. There are two new groups proposed: <ul style="list-style-type: none"> Lenders Mortgage Insurance (LMI) focus group has been formed to focus on AASB 17 interpretation and its first meeting is to be held within a few weeks [post meeting not: LMI focus group was held on 28 September 2022]. A focus group has been requested to consider AASB 17 implementation on contracts between ARPC and the market. This group will not be dealing with commercial aspects of ARPC contracts, it would only be dealing with AASB 17 technical implementation questions that the industry or ARPC wishes to table. These focus groups are expected to be more discussion based rather than to involve many policy papers. <p><u>Next steps</u></p> <ul style="list-style-type: none"> The Chair will contact the Medical Indemnity Group and find out whether there is any interest in reconvening the focus group at this stage. The Chair will also contact the representatives from large accounting firms for volunteers for the APRC focus group, as well as contacting relevant participants. <p>IFRIC update</p> <ul style="list-style-type: none"> There is no further update on the CSM pattern for annuity contracts that was discussed a while ago. The IFRS Interpretations Committee discussed feedback on the tentative agenda decision published in June 2022 about how an entity accounts for insurance contracts that generate cash flows in more than one currency. The IASB will consider the agenda decision at its October 2022 meeting. Given there is still time for the AASB to provide feedback to the IASB, AASB staff encouraged anyone with significant concerns to contact the Chair or AASB staff. The Chair asked members if this issue was affecting any entities in the market and one member noted that this issue raises an interesting question about where FX changes should be presented if they are treated as AASB 121 <i>The Effects of Changes in Foreign Exchange Rates</i> movement. <p>AASB/TRG – survey of AASB 17 disclosure policy choices and judgments</p> <ul style="list-style-type: none"> The AASB is looking to conduct a survey of the insurance industry to find out what key decisions are being made around AASB 17 disclosure policy choices and judgements. One member asked about the purpose of the survey, to which AASB staff and the Chair responded by highlighting the benefit to the AASB in being able to capture information for a future post implementation review and the benefit of finding out the industry consensus for preparers. 	

TRG Minutes

Topic	Agenda paper
<ul style="list-style-type: none">• The Chair clarified that the remit of the survey will be limited to choices and judgements for disclosure only.• AASB/TRG are looking for volunteers to review the list of questions. <p><u>Next steps</u></p> <ul style="list-style-type: none">• AASB TRG members, or other volunteers, to signal any interest in supporting the disclosure survey.	
End Meeting	

Attendance

Members	Anne Driver (Chair) Stu Alexander (for Elaine Hultzer) Anthony Coleman Cassandra Cope Brendan Counsell David Daniels Jennifer Dwyer Jane Clifford (for Fehraz Fallil) Scott Hadfield Richard Sheridan Louise Miller David Rush Frank Saliba Rob Sharma Rachel Poo Warwick Spargo Paul Stacey Leong Tan Ciara Wasley Pierce Dawson (for Leann Yuen) Brett Pickett Vanessa Mok
Apologies	Toby Langley Regina Fikkers
Other presenters	Angus Thomson Kos Dimitrou Patrick Grob Roger Dollman Anna Donoghoe Brett Pickett
Secretary	David Ji
AASB Staff	Eric Lee Patricia Au Jia Wei