



## Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)

15 March 2024

2 pm – 3.45 pm

### Objective:

- Update from APRA on reporting and prudential standards and APRA Connect
- Update on AASB 17 Tax
- Industry papers discussion:
  - Update on tax and levies – compensation scheme of last resort
  - AASB 110 vs. AASB 17 definition of timing of events
- Update on public sector focus group
- Update from AALC
- IFRS 17 Post Implementation Review
- AOB

**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
<b>Welcome and introduction</b>	
Welcome and introduction by TRG Chair (“The Chair” hereafter).	
<b>Update from APRA on reporting and prudential standards and APRA Connect</b>	
<ul style="list-style-type: none"><li>• September and December 2023 APRA submissions were ‘stable’ overall with a few data quality issues. Signage and incorrect use of zeros were called out as standout errors.</li><li>• These issues will continue to be monitored on an ongoing basis.</li><li>• APRA encourages the industry to refer to available information, i.e. FAQs and to consider what checks and processes could be implemented for improvement, while APRA works towards building validation rules.</li><li>• Insurers can submit data- and supervision-related queries through respective channels.</li><li>• In response to questions from TRG members APRA representative noted that:<ul style="list-style-type: none"><li>○ APRA does not intend to make fundamental form changes.</li><li>○ No significant changes have been observed in respect of capital requirements.</li></ul></li></ul> <p>Next steps:</p> <ul style="list-style-type: none"><li>• Chair to liaise with APRA to determine the timing of next update.</li></ul>	
<b>Update on Tax</b>	

Topic	Agenda paper
<ul style="list-style-type: none"> <li>• The Bill proposing changes to Division 321 of the <i>Income tax Assessment Act 1997</i> for alignment with AASB 17 that was introduced last year has yet to be passed, pending consideration by the Senate.</li> <li>• ATO has been referring insurers to Law Administration Practice Statement 2007/11 (PS LA 2007/11) in relation to ATO’s approach to announced but unenacted measures. PS LA 2007/11 provides ATO’s policy on tax penalties and interest in situations where a taxpayer either chooses to apply the existing law or chooses to anticipate a law change.</li> <li>• As noted previously, the Bill contains transitional arrangements to ensure that there are no permanent differences for general insurers when applying the proposed amendments. In anticipation of law change, ATO has prepared the relevant Election Form and related webpage guidance.</li> </ul> <p>As at the time of this TRG meeting, there was no firm indication of when the Bill is expected to be passed. [As at 27 March 2024: Amendments were made to other measures in the Bill and so will need to return to the House for confirmation before receiving Royal Assent and becoming law. <a href="#">Treasury Laws Amendment (Support for Small Business and Charities and Other Measures) Bill 2023.</a>]</p>	
<p><b>Industry papers discussion: Update on tax and levies - compensation scheme of last resort</b></p>	
<ul style="list-style-type: none"> <li>• The Compensation Scheme of Last Resort (CSLR) is designed to make payments to eligible customers on a last resort basis (e.g. when an entity providing personal financial advice, credit intermediation, securities dealing or credit provision is insolvent) and where determinations by the Australian Financial Complaints Authority (AFCA) remain unpaid.</li> <li>• On 22 June 2023, legislation was passed establishing the CSLR, which will be funded by two levies:             <ul style="list-style-type: none"> <li>○ An initial levy (special levy); and</li> <li>○ An ongoing levy (annual levy)</li> </ul> </li> <li>• Initial levy applies to APRA-regulated entities that are within the Tax Act for 2021-2022 tax year with taxable income ranked in the top ten of those applicable entities. [The ongoing levy is not applicable to insurers.]</li> <li>• A question has been raised about how the initial levy should be accounted for, i.e., whether it is directly attributable to fulfilling an insurance obligation under AASB 17 or should be accounted for applying other AASB Standards.</li> <li>• The presenter summarised the feedback:             <ul style="list-style-type: none"> <li>○ Given that insurers are generally only caught by that initial levy, and not the ongoing CSLR levy, this tends to a view under AASB 17 as a non-attributable expenses. The policyholder is essentially no better off or worse off for it.</li> <li>○ The levy is chargeable to financial services entities, including banks and other financial institutions, not just insurers.</li> </ul> </li> <li>• The Chair asked if the AASB TRG members from the large accounting firms have any concerns about the accounting treatment. None were raised at the meeting. [Reiterating that no advice is provided through the AASB TRG, or members thereof, and entities should ensure they have discussions with their relevant advisors or auditors if the CSLR is applicable].</li> </ul>	

Topic	Agenda paper
<b>Industry papers discussion: AASB 110 vs. AASB 17 definition of timing of events</b>	ATT1
<p><u>Background</u></p> <ul style="list-style-type: none"> <li>• An example in AASB 17 paragraph B55 provides that an uncertain event considered in estimating future cash flows as at the balance date which subsequently occurs during the post balance date period does not result in the fulfilment cash flows being adjusted.</li> <li>• AASB 110 <i>Events after the Reporting Period</i> requires adjusting events to be reflected in the financial statements to the extent the condition related to the event existed at the balance sheet date, i.e. the post balance date settlement of a court case that existed before the balance date.</li> <li>• There are two differing interpretations of AASB 17.B55:             <ul style="list-style-type: none"> <li>○ Given the example is for an event that has yet to occur, AASB 17.B55 relates to the liability for remaining coverage (LRC) and not the liability for incurred claims (LIC) – View 1 in the paper; and</li> <li>○ AASB 17.B55 should be applied to both the LRC and LIC such that neither is revised post balance date for new information that has become known post balance date – View 2 in the paper.</li> </ul> </li> <li>• Many insurers from the Australian Private Health Insurance (PHI) industry adjust their LIC for the year-end based on the development of claims in the month (or months) after the end of the financial year. They do this because of the speed with which PHI claims are resolved. A significant share of the outstanding claims at the reporting date will be resolved within 1-2 months and this information can materially change the insurance liabilities for incurred claims. Therefore the liability is updated for actual claims costs. The adjustments to the outstanding claims are referred to in the industry as ‘hindsight adjustments’.</li> <li>• The Actuaries Institute’s taskforce on AASB 17 interpreted AASB 17.B55 as no longer allowing post-reporting date information to be used, as expressed in Q3.20 of their Information Note. However, discussions with auditors have identified that a common view that ‘hindsight adjustments’ are still permissible based on AASB 110.</li> </ul> <p><u>TRG Discussion</u></p> <ul style="list-style-type: none"> <li>• TRG members largely agreed that, to the extent claims have been incurred before the balance date, the LIC should be revised post balance date for additional information about those claims and noted that:             <ul style="list-style-type: none"> <li>○ Auditors are unlikely to sign off on the balance date LIC that does not reflect known post balance date changes if the balance date liability is significantly underestimated as a result.</li> <li>○ Auditors take into account notified claims after year-end to assess the appropriateness of the balance date IBNR.</li> <li>○ This issue generally affects non-life insurers, including PHIs, and is not so relevant to life insurers because actuaries set assumptions for the long-term average for the latter.</li> </ul> </li> <li>• TRG members were generally of the view that:             <ul style="list-style-type: none"> <li>○ Based on the example in AASB 17.B55 the LRC is not revised subsequent to balance date. There was broad agreement on this in the industry.</li> </ul> </li> </ul>	

Topic	Agenda paper
<ul style="list-style-type: none"> <li>○ The IASB’s underlying intent for including AASB 17.B55 could have been to address concerns for contracts that become onerous subsequent to balance date but were not judged to be onerous based on the information available at reporting date.</li> <li>○ View 1 is consistent with current practice as insured events that occur after year-end are not adjusting events, whereas notification of claims that have incurred before year-end may be an adjusting event.</li> <li>● One member raised a question about inflation as an input to estimating insurance liabilities. AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> has a clear statement that entities should use information up to the date the accounts are signed when estimating contingent liabilities. The member asked whether new information about inflation post balance date would be treated as an adjusting or non-adjusting event. The views shared in response included: <ul style="list-style-type: none"> <li>○ The latest inflation information should be reflected if available before the accounts are finalised.</li> <li>○ Inflation assumptions are more likely to be revised if the impact to the liability is material and there are no changes to offsetting assumptions.</li> </ul> </li> <li>● In relation to the difference in the view between View 1 and the Actuaries Institute’s Information Note, it was noted that: <ul style="list-style-type: none"> <li>○ AASB TRG will consider flagging this issue as part of feedback for the IFRS 17 Post Implementation Review.</li> <li>○ Actuaries Institute’s task force decided against updating the Information Note because calling out one or two parts of the guidance could be perceived as implying the entire document has been reviewed against current industry views, which is not the case. An appropriate flag by the Actuaries Institute to avoid misinterpretation and/or misapplication would be sensible as the document could be used widely in the future. The AASB TRG representative of the Actuaries Institute was requested to relay this consideration.</li> <li>○ AASB will be requested to conduct outreach to the IASB to determine whether the issue has come up in other jurisdictions and to better understand the IASB’s purpose in including IFRS 17.B55.</li> </ul> </li> </ul>	
<b>Update on public sector focus group</b>	<b>ATT2</b>
<p>The public sector focus group (Group) met in February 2024 and discussed the matters outlined below:</p> <p><u>Coverage period</u></p> <ul style="list-style-type: none"> <li>● Coverage period was noted as the most challenging prerequisite criterion in determining the public sector activities within the scope of AASB 17: <ul style="list-style-type: none"> <li>○ There appears to be some inconsistency in respect of scope assessment outcome among entities that have multiple funds.</li> <li>○ Some grandfathered schemes that provide adverse development cover no longer have a coverage period.</li> </ul> </li> </ul> <p><u>Risk adjustment for non-financial risk (risk adjustment) and skewed distributions</u></p> <ul style="list-style-type: none"> <li>● Many public sector entities, particularly those exposed to natural disasters, have a pronounced skewed distribution such that the best estimate cash flows achieve a confidence level of well above 50%.</li> </ul>	

Topic	Agenda paper
<ul style="list-style-type: none"> <li>• The issue is much less pronounced in the private sector because distributions across private sector insurers tend to be less skewed due to the mix of business and because their risk adjustments are generally well above nil.</li> <li>• The issue may be magnified for public sector entities applying a risk adjustment of zero, which has led to some speculation that a ‘negative risk adjustment’ might be needed.</li> <li>• The Group members agreed that a negative risk adjustment would be inconsistent with AASB 17, which implies LIC could be no less than the best estimate.</li> <li>• Group members noted an entity might deliberately under-price to use up reserves over a period, which may imply an entity is ‘risk-seeking’ for that period – however, the Group unanimously agreed that the risk adjustment would still not be negative.</li> </ul> <p><u>‘Group’ versus ‘portfolio’</u></p> <ul style="list-style-type: none"> <li>• The Group expressed a general level of comfort with applying AASB 17 on a portfolio basis.</li> </ul> <p><u>Government guarantees</u></p> <ul style="list-style-type: none"> <li>• The Group discussion focused on the impacts from a risk adjustment perspective.</li> <li>• Not all government guarantees are in the form of a guarantee, i.e. some are loans required to be paid back and the implications of this may need to be further explored.</li> </ul> <p><u>Possible topics for discussion at future Group meetings</u></p> <ul style="list-style-type: none"> <li>• illiquidity premiums for discount rates applied in a public sector context;</li> <li>• further discussion on coverage periods; and</li> <li>• further discussion on risk adjustments.</li> </ul>	
<p><b>Update from AALC</b></p>	
<p>The following topics were discussed at the recent AALC meeting:</p> <ul style="list-style-type: none"> <li>• ESG <ul style="list-style-type: none"> <li>○ AALC formed a subcommittee to draft a response to the AASB on Exposure Draft ED SR1 <i>Australian Sustainability Reporting Standards - Disclosure of Climate-related Financial Information</i>.</li> <li>○ The views expressed were a predominant view and not an unanimous view of the subcommittee in support of two key messages: <ul style="list-style-type: none"> <li>▪ alignment with the rest of the world would be preferred; and</li> <li>▪ a deferral will be the better way to help companies achieve the goal without deviating too much from the global view.</li> </ul> </li> </ul> </li> <li>• AASB 110 versus AASB 17 definition of timing of events <ul style="list-style-type: none"> <li>○ Clarity in the standard would be helpful to all users.</li> <li>○ View 1 noted above was supported.</li> </ul> </li> <li>• Tax <ul style="list-style-type: none"> <li>○ Most members regarded the Tax Act as not yet being substantively enacted, and therefore, at the reporting date, the implication is that applying AASB 17 would give rise to a deferred tax item.</li> </ul> </li> </ul>	
<p><b>Update on Post-Implementation Review</b></p>	

Topic	Agenda paper
<ul style="list-style-type: none"> <li>• A new or amending accounting standard is required to have a post implementation review (PIR) within two years of becoming effective.</li> <li>• From a regulatory perspective a PIR should be completed within five years.</li> <li>• Given the complexity of AASB 17 and varying application dates globally, AASB staff are commencing documenting Australian issues to be shared with the IASB.</li> <li>• In 2023 the AASB staff conducted a survey from which the AASB Research Report No.18 was published.</li> <li>• The agenda paper identified two categories of issues, namely, Type A for non-routine transactions and Type B for routine transactions and sought the AASB TRG’s consideration on which type of issues should be prioritised for the purpose of sharing with the IASB.               <ul style="list-style-type: none"> <li>○ Non-routine transaction related issues are typically addressed each time particular transactions occur, i.e. adverse development covers.</li> <li>○ Routine related issues are likely to have become embedded in an insurer’s processes and systems as they stem from routine transactions and therefore entities are likely to be reluctant to change due to costs, i.e. coverage units.</li> </ul> </li> <li>• In addition to the consideration of the identified types, stakeholders are encouraged to also consider whether the requirements of IFRS 17 are applied in practice and delivering results as intended by the IASB.</li> </ul> <p><u>Next steps</u>            Before its next meeting in June 2024, AASB TRG will send an email reminder to follow up on any views members may have on issues in the agenda paper to raise for the PIR.            It was also noted that the AASB could usefully reprise its Research Report No. 18, which canvassed intended accounting policy choices available in AASB 17, with similar questions that seek to identify the accounting policy choices actually made by Australian insurers in applying AASB 17.</p>	
<b>AOB</b>	<b>ATT3</b>
<ul style="list-style-type: none"> <li>• <b>PHI focus group:</b> The PHI focus group has few meetings since the last TRG meeting. They discussed issues around financial statements presentation and financial statement disclosures. The next PHI focus group meeting will be held before the June TRG meeting/reporting season.</li> <li>• <b>Determination of coverage units and use of inflation and discounting</b> (primarily a Life insurance issue): Some outreach has been done for the issue around determining coverage units. However, the issue has been dropped as there was not a quorum to form a focus group. If anyone would like to table a paper on the issue they are encouraged to do so.</li> <li>• <b>PwC members:</b> The AASB TRG Committee notes that individuals from PwC who are members of the AASB TRG, and are associated with sub-committees and/or focus groups are acting in their capacity as representing PwC.</li> <li>• <b>Actuaries Institute Task Force:</b> The task force has been disbanded. The Chair asked the Actuarial members of the AASB TRG to keep the TRG up to date with any developments in the broader actuarial community regarding AASB 17.</li> </ul>	
<ul style="list-style-type: none"> <li>• End Meeting</li> <li>• 2024 TRG meetings:               <ul style="list-style-type: none"> <li>○ 13 June</li> <li>○ 10 October</li> </ul> </li> </ul>	

## Attendance

Members	Anne Driver (Chair) Elaine Hultzer Cassandra Cope Brendan Counsell Jennifer Dwyer Scott Hadfield Stephen Connors Sian Mueller Frank Saliba Rob Sharma Rachel Poo Warwick Spargo Leann Yuen Leong Tan Ciara Wasley Leigh Kobus Len Giles (alternate for Michael Burns) Regina Fikkers James Richardson
Apologies	James Richardson Toby Langley David Rush Tom Lunn Eamon Sloane
Other presenters	Angus Thomson Rhian Saunbury Antony Claughton
Secretary	David Ji
AASB Staff	Helena Simkova Eric Lee Jia Wei