Australian Government
Australian Accounting Standards Board

# TRG Minutes

**Meeting information**

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
1 June 2022
2pm – 3.30pm

**Agenda:**

- Updates from public sector insurance project
- Updates on tax
- ICA's discussion paper on indirect taxes and levies
- Updates from the PHI focus group
- Updates from the MI focus group
- Updates from the Actuaries Institutes AASB 17 Taskforce
- Other business
    - Update on IFRS Interpretations Committee
    - Updates from AALC
    - IASB Primary Financial Statements project

**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 |
|---|---|
| **Welcome and introduction** | |
| Welcome and introduction by TRG Chair ("The Chair" hereafter).<br>The Chair reminded TRG members of the FAQ summary for December 2021 APRA QIS that was sent out by APRA following the March 2022 TRG meeting to TRG members only and also alerted members to the list of products issued by non-insurance entities that could potentially be in the scope of AASB 17 *Insurance Contracts*. | |
| **Updates from public sector insurance project** | |
| AASB staff provided an update as follows:<br>• Excellent feedback was received at the public sector focus group meeting held on 2 May 2022 and the AASB staff has separately been conducting one-on-one outreach with stakeholders.<br>• Feedback for the proposed effective date of 1 July 2025 and modifications for onerous contracts has been positive.<br>• Feedback for the proposed indicators for scope determination has been broadly positive, with suggestions for ranking or identifying some of the more significant indicators [such as arrangements being enforceable and having an identifiable coverage period] as pre- | |

| Topic | Agenda paper |
|---|---|

requisites. An indicator assessing whether there are separate assets earmarked or set aside to back insurance liabilities, on the other hand, is not seen as crucial.

- Feedback for the proposal to either apply a rebuttable presumption (NZASB approach) or apply AASB 17 unmodified (AASB approach) in respect of the risk adjustment requirements has been wide-ranging, including arguments for zero risk adjustments and various forms of rebuttable presumption.
- From those supporting no modification to the risk adjustment requirements, there was a request for guidance in relation to the meaning of 'compensation' in a public sector context.
- A number of stakeholders suggested a disclosure solution to not requiring the risk adjustment, for example, by way of sensitivity analysis disclosures.
- Both Boards will be considering the feedback from both jurisdictions.
- The Chair asked whether the feedback has covered all the proposals and the AASB staff confirmed this to be the case, noting that respondents generally tended not to comment on proposals they agreed with.
- One TRG member asked whether the boards are on track to issue the standard as scheduled, i.e., by the end of 2022 and the AASB staff responded that, with the Boards' decisions likely to be finalised at their September 2022 meeting, the standard is currently expected to be issued as planned.
- It was noted by the AASB staff that there may be another public sector focus group meeting before the September Board meeting.

| Updates on tax | |
|---|---|

A representative from the Insurance Council of Australia (ICA) provided an update as follows:

- Since TRG members were given an update at its March 2022 meeting, the ICA's tax sub-committee has continued to meet with the Treasury and ATO with a view to introducing tax law changes that will be needed given the reliance on AASB 17 information in calculating the tax for general insurers.
- Two major insurers and one reinsurer have provided APRA QIS data to ATO for an indicative assessment of the implications and challenges of AASB 17 implementation, particularly those arising from transitional adjustments.
- The Treasury has come out of the 'caretaker' mode and is taking the initiative to brief the government on the need for tax law changes and has indicated that these changes will be simplistic in that they will be leveraging existing laws rather than being achieved through full re-writes.
- In this regard, the Treasury has asked the sub-committee to provide a structure for the required tax law change. The sub-committee is planning to provide feedback in due course.
- The sub-committee is planning to advise based on the tax law changes taking place globally including those happening in New Zealand, the UK and some of the Asian countries.

| Topic | Agenda paper |
|---|---|

- On the reporting side, as heard in the previous TRG meeting, transitional adjustments will be made to retained earnings.
- For deferred taxes, a question has risen as to whether they should be booked to retained earnings or the profit or loss when those deferred taxes become taxable, or recycled/reversed.
- Also on the agenda is the issue in relation to OECD's Base Erosion and Profit Shifting Pillar Two which requires a reconstruction of deferred and current tax – to the extent there will be transitional adjustments taxable over time with no corresponding income in the profit or loss, insurers could breach the minimum tax rules.
- In response to the Chair's question on whether the changes are achievable by the end of 2022 the ICA representative noted that as the new government has a fairly full policy agenda, the Treasury has indicated that it may notify of its intention through a press release rather than tax law.
- The representative also noted that this concern was not as applicable to life insurers as it is to general insurers since their tax laws are based on regulatory returns rather than accounting numbers. It was, however, noted a submission was made recently to the Treasury regarding Day 1 impairment of acquisition costs assets recognised by life insurers.
- A representative from the ATO confirmed that the engagement between insurers, the Treasury and ATO has been positive and that the Treasury's inquiries are a reflection of the fact that AASB 17 related tax issues are on the government's agenda.
- The Chair asked how the ICA is keeping its members informed of tax developments, specifically whether these activities were confined to working groups or whether there were other means to keep ICA members abreast of progress.
- ICA representative said that tax committees and sub-working groups are the main vehicle, with updates being sent out to ICA members via newsletters from time to time.

| **ICA paper on indirect taxes and levies** | **ATT1** |
|---|---|

*Note that the paper provided and the discussions at the AASB TRG do not constitute professional advice. Entities implementing AASB 17 should seek input from advisors and auditors in interpreting the requirements of AASB 17.*

In December 2021 TRG meeting, an industry paper was presented and discussed by TRG members regarding the topic of government imposts.

That meeting led to the drafting of a more detailed paper which proposes a principle-based approach to accounting for government imposts and related charges in Australia and New Zealand. The paper proposed the following guidance:

- The paper incorporates general commercial principles and leverages existing technical accounting guidance such as from AASB 17 and other standards and from interpretations.
- General commercial principles include:
    - Preserve existing accounting treatments unless required otherwise by AASB 17.

| Topic | Agenda paper |
|---|---|
| <ul><li style="list-style:none"><ul><li>Consider commercial substance over legal form, i.e., determine whether the insurer is acting as an agent or principal in collecting taxes.</li><li>Amounts computed at a transactional level based on a fixed percentage and remitted periodically to the government are likely indicators of insurers acting as collection agents, whereas amounts computed at an entity level over longer periods and remitted via instalments and/or estimates are more likely to be a charge on the insurers themselves.</li></ul></li><li>Technical accounting considerations include:<ul><li>GST treatment per AASB Interpretation 1031 *Accounting for the Goods and Services Tax* (GST) which states that amounts collected from customers is not revenue of the insurer if the transaction generates a present obligation to remit to the government.</li><li>Customer receivables in the balance sheet should include amounts to be collected and remitted to the government, i.e., such receivables to include GST and stamp duty attached to the transaction.</li><li>AASB 15 *Revenue from Contracts with Customers* definition of transaction price – to exclude amounts collected on behalf of third parties as transaction price is defined as the consideration for the transfer of a service.</li><li>AASB 17.B65 – (fulfilment) cash flows within the contract boundary of an insurance contract include taxes and levies.</li></ul></li><li>Applying the above principles, the paper identifies the following categories of government imposts:<ul><li>Category A – an insurer collects these amounts as an agent and therefore these are effectively pass-through amounts which do *not* impact insurance revenue and insurance service expenses, e.g. GST, stamp duty and the Earthquake Commission Levy in NZ.</li><li>Category B – an insurer is acting as a principal such that the amounts collected are treated as a cost to the insurer, and therefore amounts collected and paid are booked to insurance revenue and insurance service expenses, respectively, e.g., NSW Emergency Services Levy.</li><li>Category C – reinsurance held arrangements such as those of the Australian Reinsurance Pool Corporation (ARPC), whereby amounts remitted to and recovered from the ARPC are treated as reinsurance service expense and reinsurance revenue, respectively.</li><li>Category D – no firm conclusion reached by the tax working group as to whether a tax paid on premiums ceded to foreign resident reinsurers should be treated as Category A or B</li></ul></li><li>In relation to the above:<ul><li>TRG members supported the application of the principal/agent principle.</li><li>One member noted that stamp duties are treated differently by life insurers and Category B would include both premiums and expenses in the income statement.</li></ul></li></ul> | |

| Topic | Agenda paper |
|---|---|
| ○ Net GST payable or receivable would likely stay within the insurance liability depending on how an entity's reporting system processes taxes and levies.<br>○ One would expect there to be operational challenges in accounting for government imposts such as the GST as current systems do not track these at the level of granularity required by AASB 17 nor are these amounts incorporated into insurance liability cash flow projections.<br>○ Therefore, although what will be required of taxes and levies under AASB 17 would not be significantly different from current practice from a recognition and measurement perspective, the disaggregation of taxes and levies is expected to be operationally challenging.<br>○ A TRG member asked whether consideration had been given to where in the balance sheet amounts collected on behalf of third parties would be presented – for example, in the liability for remaining coverage and/or liability for incurred claims and it was noted this matter had been discussed at the December 2021 TRG meeting.<br>○ On the topic of withholding tax paid to foreign resident reinsurers, one representative from a reinsurer said the reinsurer viewed the 3% tax as a cost (therefore Category B) and asked if there would be a mismatch between the accounting for the reinsurer's inward and the cedant's outward reinsurance. Some TRG members asked if this was envisaged as a mismatch in the context of an intercompany transaction but no view was expressed for this question other than noting that intercompany mismatches are not uncommon under AASB 17.<br>○ The Chair thanked the authors for their contribution and urged TRG members to share the paper with those grappling with these issues so as to help them have an informed discussion with their auditors and advisors. | |
| **Updates from the PHI focus group** | **ATT2** |
| A member of the Private Health Insurance (PHI) focus group provided an update as follows:<br>• The PHI focus group has continued to hold meetings in 2022 to discuss AASB 17 implementation questions with a focus on working through the nuances and how PHI entities are operationalising decisions.<br>• A paper on contractual cash flows and insurance service result is the only paper that was recently updated but given there were no significant changes it is not being tabled for further discussion.<br>• Currently the focus group is working on another paper with a view to promoting consistency of presentation within the industry in the form of pro-forma financial statements.<br>One TRG member suggested adding to the TRG agenda the accounting for liabilities recognised by PHIs relating to medical treatments deferred due to the impact of COVID restrictions when the PHI industry transitions to AASB 17. The Chair noted that this has previously been discussed by the focus group and that there remains strong interest in this issue. The focus group plans to consider a further paper on the issue at the next focus group meeting | |

| Topic | Agenda paper |
|---|---|
| and, if determined to be of interest to a wider audience, the paper will be tabled for TRG discussion. | |
| **Updates from the MI focus group** | **ATT3** |
| The Medical Indemnity (MI) focus group held its first meeting of 2022 on 24 May. A member of this focus group provided the following update:<br>• The focus group discussed onerous contracts and the level of aggregation, and more specifically the identification and setting-up of portfolios required by AASB 17.<br>• Also discussed at the meeting was the treatment of student insurance cover issued by medical indemnity providers (where no or minimal premium is charged) and the potential resulting impact on a group of insurance contracts.<br>• The focus group will meet again on 21 June to discuss illiquidity premium, risk adjustment and run-off cover treatment, noting that the group would leverage the PHI focus group's paper on the risk adjustment.<br>The Chair encouraged bringing MI focus group papers to the TRG if they would be useful to a broader group. | |
| **Updates from the Actuaries Institutes AASB 17 Taskforce** | |
| The Actuaries Institute AASB 17 Taskforce (Taskforce) has shifted its focus from supporting APRA with APRA QIS to other areas, with one of the key focus areas being the AASB 17 education for actuaries and determining whether the target audience is broader than actuaries.<br>There are three individual working groups established by the Taskforce:<br>• Friendly society working group – concern has been flagged in relation to an APRA requirement to allocate information between the management fund and benefit fund.<br>• VFA working group – most work has been completed.<br>• Reinsurance reporting working group –provides support to APRA and recently helped mutuals with completing the APRA QIS.<br>The Chair encouraged raising awareness of these working groups for those experiencing issues within each working group's focus areas and TRG members to reach out to if they see issues in practice worth sharing with these groups. | |
| **AOB** | |
| ***The Accountants' and Actuaries' Liaison Committee [AALC]***<br>Update from AALC – the IFRS Interpretations Committee (IFRS IC) decided not to add to its agenda the recent submission on the coverage unit pattern for annuity products. Some constituents were not satisfied with the Committee's decision and have issued responses to the IFRS IC. The Chair noted that papers are available on the IFRS IC website for those who have annuity products and require more detail. | |

| Topic | Agenda paper |
|---|---|
| ***IASB IC outreach***<br>One of the forthcoming topics to be discussed by the IFRS IC is foreign currency related to fulfilment cash flows, which is a cross-cutting issue between AASB 17 and AASB 121 *The Effects of Changes in Foreign Exchange Rates*. AASB TRG prepared feedback in response to the IASB's call for submissions. [Subsequent to the TRG a paper has been prepared and tabled for IFRS IC discussion]<br>***Update on the IASB's primary financial statements project***<br>AASB staff noted:<br>• In December 2019 the IASB issued an exposure draft with proposals to improve how information is communicated in the financial statements.<br>• One of the proposals was to require income and expenses from equity accounted investments to be disclosed below the line of operating profit.<br>• TRG members were asked whether there would be an issue if the results from equity accounted investments linked to an insurance contract or from those held to meet solvency requirements are shown below the gross operating profit line.<br>• TRG members noted that some life insurers will be impacted because, unless exempted from the proposed requirement, there will be a mismatch between the impacts on insurance liabilities and the impacts on assets backing those insurance liabilities.<br>• AASB staff will reach out to some impacted entities to seek more specific input on the issue.<br>***Next meeting***<br>The next meeting is scheduled for Wednesday 14 September from 2pm to 4pm. | |
| **End Meeting** | |

**Attendance**

| | |
|---|---|
| Members | Anne Driver (Chair)<br>Stuart Alexander<br>Anthony Coleman<br>Cassandra Cope<br>Jennifer Dwyer<br>Jason Bain [behalf of Brendan Counsell]<br>Jane Clifford [behalf of Fehraz Fallil]<br>Louise Miller<br>David Rush<br>Warwick Spargo<br>Leong Tan<br>Ciara Wasley<br>Frank Saliba<br>Toby Langley<br>Rachel Poo |

| | |
|---|---|
| | Regina Fikkers<br>Brett Pickett<br>Vanessa Mok<br>Leann Yuen<br>Scott Hadfield<br>Paul Myers [behalf of Paul Stacey] |
| Apologies | David Daniels<br>Fehraz Fallil<br>Brett Pickett<br>Rob Sharma<br>Richard Sheridan/Rhian Saunsbury |
| Secretary | David Ji |
| AASB Staff | Eric Lee<br>Patricia Au<br>Helena Simkova<br>Angus Thomson |