



Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
 18 October 2023
 2pm – 4pm

Objective:

- Update from APRA on reporting and prudential standards, and APRA Connect
- Update on Tax
- Industry papers discussion:
 - Update on tax and levies -compensation scheme of last resort
- IFRS Interpretation Committee outreach – premiums receivable from an intermediary
- Update on world standard setters
- Update from the PHI focus group
- Update from Actuaries Institute Taskforce
- Update from AALC
- AOB
 - Public sector focus group (risk adjustment)

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).	
Update from APRA on reporting and prudential standards, and APRA Connect	
<ul style="list-style-type: none"> • To facilitate the transition to AASB 17, APRA has: <ul style="list-style-type: none"> ○ released a letter for category C general insurers (those operating as a foreign branch) not subject to IFRS in their home jurisdiction to allow use of approximations for ARPA reporting; ○ released FAQs on its website for questions such as those on auditor access. • If entities have concerns outside of FAQs, APRA data teams can be emailed directly via analytics@apra.gov.au. • APRA has released all 69 forms into APRA-connect production. The APRA representative provided an update as follows: <ul style="list-style-type: none"> ○ An incorrect calculation in the operational risk charge will be fixed on 11th November. It should have no impact on entities’ submissions because the impact is confined to the risk charge only, i.e. no flow-on impact. [The validation rules did not permit some values, i.e., zero values where the correct rule should have been to include values equal to or greater than zero.] ○ FAQs on the APRA support material page are being updated. 	

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<ul style="list-style-type: none"> ○ Insurance industry FAQs are also added for questions about taxonomy artefacts in the external testing environment. ● In response to questions from the Chair and other TRG members, the APRA representative noted that: <ul style="list-style-type: none"> ○ Although the scale of use for the external testing environment has not been monitored, errors to be identified (if any) in the future are not expected to be material. ○ APRA has developed measures to deal with high volumes of submissions. ○ All insurers, including Category C insurers allowed to use approximations, will be reporting via APRA Connect. ○ The data for September returns will not be published. 	
<p>Update on Tax</p>	
<ul style="list-style-type: none"> ● From the representative of a large insurer: <ul style="list-style-type: none"> ○ A bill has been introduced to Parliament to align the tax laws with AASB 17 for general insurers. Some issues were raised during the July consultation, in particular in relation to the proposed tax laws not being compatible with the general measurement model under AASB 17. ○ In response to the feedback received, the Treasury decided to revise the tax laws with two notable exceptions for indirect claim settlement costs and onerous contract losses. Both of these will be treated as a non-deductible temporary difference which is no change from the previous regime. ○ The laws also introduce a transitional measure and as a result there is no permanent difference on adoption of AASB 17. Taxpayers can elect to either spread the gain or loss over up to five years to manage their cash flows; or recognise the gain upfront, (e.g. if they wish to generate franking credits). ○ The deferred tax asset (DTA) attaching to onerous contract losses is not considered to be the same type of DTA for other timing differences for APRA reporting purposes, or for the Prescribed Capital Amount (PCA) model. This is noted for those setting up systems. ○ In the Australian Controlled Foreign Corporation (CFC) regime, which attributes profits from overseas subsidiaries, there are special laws for insurance entities which deal with concepts such as outstanding claims. Those laws were not dealt with as part of this new bill so there are still legacy references in tax law to previous accounting concepts. The Treasury, however, indicated that they are unwilling to address those issues because IFRS 17 is not being adopted globally. ○ Substantive enactment is currently expected before the year end. ● From the representative of ATO: <ul style="list-style-type: none"> ○ The ATO is preparing web content regarding the transitional election mentioned above and general insurers will be required to make this election on an approved form once it becomes available. ○ At this stage, the ATO does not consider that the general insurance industry requires extensive new public advice and guidance to be developed and provided by the ATO in response to the amendments because the explanatory memorandum associated with the new bill provides guidance on how the amendments to Division 321 of the Tax Act should be interpreted and applied. ○ The ATO representative said that no change is currently expected to be made to the tax legislation for life insurers. ○ The Chair pointed out the direct vs indirect claims handling costs is an issue in need of further clarification as is inconsistent with AASB 17 reporting and the ATO representative agreed there is a difference between the bill and AASB 17 with respect to indirect settlement costs which will be treated as a non-deductible timing difference to the extent they are not attributable to a particular claim. 	

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<ul style="list-style-type: none"> ○ There was a separate submission made to the Treasury on the proposed laws seeking to have the tax outcomes aligned with APRA reporting, which is relevant for some foreign insurers with branches operating in Australia that set up their accounting systems purely to report on an APRA basis rather than an IFRS 17 basis. The Chair suggested that forming an Insurance Council of Australia working group might be a good idea to achieve alignment. ○ In response to a member’s question regarding the Bill’s impact on private health insurers (PHI), the ATO representative said that PHIs will not be impacted and the current practice of relying on ordinary concepts in determining tax is expected to continue. 	
Industry papers discussion: Update on tax and levies - compensation scheme of last resort	ATT1
<ul style="list-style-type: none"> ● The Compensation Scheme of Last Resort (CSLR) is designed to make payments to eligible customers on a last resort basis (e.g. when a 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 two levies: <ul style="list-style-type: none"> ○ An initial levy (special levy) ○ An ongoing levy (annual levy) ● 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. ● 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. ● TRG members observed that: <ul style="list-style-type: none"> ○ Determination of the top 10 entities by taxable income involves judgement given the uncertainty, i.e., taxable income information is not available until November. ○ Based on initial discussions it appears there is no consensus accounting treatment in the industry (e.g. some insurers were recognising a provision under AASB 1023/AASB 17 and some considering it may not relate to fulfilment cash flows). ○ A further point was made that where the levy is based on the entire amount of taxable income the levy may not all be considered attributable because taxable income is based on total income that may include non-insurance income. ○ A further point was made that this scheme is similar to the financial claim scheme and therefore arguably could be treated in the same way, i.e. as non-insurance related. ● The paper will be discussed further at the upcoming AALC meeting on 15 November. 	
IFRS interpretation committee agenda decision on premiums receivable via an intermediary	
<ul style="list-style-type: none"> ● At its September 2023 meeting, the IFRS Interpretation Committee (Committee) decided not to add a standard-setting project about how an entity that issues insurance contracts would apply the requirements in IFRS 17 <i>Insurance Contracts</i> and IFRS 9 <i>Financial Instruments</i> to premiums receivable from an intermediary. The Committee instead decided to finalise an agenda decision clarifying that either Standard could be applied to the relevant fact pattern. Please read the paper for more details. ● The agenda decision will be ‘final’ if the IASB at its October 2023 meeting raises no objection. [Author’s note: the IASB met in the week after the AASB 17 TRG meeting and raised no objection to the agenda decision.] 	

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Update on world standard setters	ATT2
<ul style="list-style-type: none"> • Background <ul style="list-style-type: none"> ○ At the September 2023 World Standard-setters Conference, standard setters from the Asia-Oceania region reported on a number of matters related to adopting IFRS 17, including: <ul style="list-style-type: none"> (a) whether and, if so, when IFRS 17 is being adopted; and (b) key challenges of implementing IFRS 17. • Timing of adoption <ul style="list-style-type: none"> ○ Most Asia-Oceania region jurisdictions reported adopting IFRS 17 for periods beginning on or after 1 January 2023. ○ A significant minority are adopting later – for example, for periods beginning on or after 1 January 2025. One jurisdiction is planning to adopt IFRS 17 for periods beginning on or after 1 January 2026. ○ Of the jurisdictions with significant Islamic financial product markets in which Takaful contracts form a large proportion of insurance contracts issued and held, some are adopting IFRS 17 for Takaful contracts and some are not. • Key challenges <ul style="list-style-type: none"> ○ The key challenges indicated for the Australian market included: <ul style="list-style-type: none"> ▪ loss portfolio transfers and adverse development covers, particularly when there are accounting mis-matches for an insurer that holds an adverse development cover because it has a liability for incurred claims for the underlying contracts and an asset for remaining coverage for the reinsurance contract held ▪ non-distinct investment components, including measurement and disclosure challenges ▪ determining coverage units ▪ identifying inflation that is part of insurance finance income or expense ▪ determining the extent to which aspects of IFRS 17 apply to the PAA. ○ Other jurisdictions typically identified more generic challenges including: <ul style="list-style-type: none"> ▪ cost of implementation ▪ complexity of IFRS 17 ▪ lack of qualified staff ▪ lack of capacity to analyse the results, perform sensitivities and develop projections ▪ need to upgrade of accounting systems infrastructure ▪ need for a greater level of granularity of data about insurance contracts ▪ limited specific guidance in IFRS 17 on some topics ▪ tax-related issues. • Post-implementation review <ul style="list-style-type: none"> ○ The IASB is likely to wait until most jurisdictions have one or two years of experience of applying IFRS 17 before conducting a formal post-implementation review. Since 	

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<p>some jurisdictions have a 2025 application date, the formal post-implementation review is unlikely to be conducted before 2026/2027.</p> <ul style="list-style-type: none"> ○ The IASB’s focus in a post-implementation review is likely to be on whether the requirements are functioning as intended. ● The presenter noted that annual improvements to IFRS Standards would not be suitable avenue for addressing issues identified prior to the PIR as significant issues would need to go through the standard standard-setting due process. ● The Chair asked if there were any issues that should be added to the list of issues identified thus far. Members mentioned the following issues: <ul style="list-style-type: none"> ○ The order of the CSM release; and ○ Contract boundary; ● An AASB TRG list will be prepared and circulated among TRG members. The TRG will discuss whether more issues need to be added to the list at the first TRG meeting next year. 	
<p>Update from the PHI focus group</p>	
<ul style="list-style-type: none"> ● The PHI focus group are meeting less frequently. No further technical papers are expected from the PHI group. The PHI group focused on onerous contracts in its last two meetings. In their future meetings the PHI group will discuss proforma accounts, particularly the liability notes. The PHI group will reassess whether the group needs to continue through to June next year. 	
<p>Update from Actuaries Institute Taskforce</p>	
<ul style="list-style-type: none"> ● The Taskforce is less active and meets quarterly. ● Providing feedback to APRA on an ad hoc basis has been the main priority. ● The last meeting was held in September 2023. At the meeting, they discussed issues around APRA Connect and PHI. ● The Taskforce is still looking for a chair. ● In response to the Chair’s question regarding the Actuaries Institute training on AASB 17, the representative responded that it was available online and it has been well utilised. The Actuaries Institute noted there was a high level of engagement. 	
<p>Update from AALC</p>	
<ul style="list-style-type: none"> ● The AALC meets monthly. The last AALC meeting was in September 2023. Three topics discussed at this meeting were: <ul style="list-style-type: none"> ○ to what extent are insurers accounting for adverse development covers under premium allocation approach permitted to apply paragraph 66c(i) in the reinsurance provisions of the standard; ○ the ability to use premium allocation approach for some investment products with discretionary participating features; and ○ a large accounting firm’s update on half-year reporting, leveraging disclosures that were publicly available in the market. ● The next meeting of the AALC is on 15 November. The AALC is a useful forum for discussing topics behind closed doors before taking it up to the AASB TRG meeting. Guests are welcome to raise issues for discussion. If anyone has topics they would like to raise, please contact Rachel Poo. 	
<ul style="list-style-type: none"> ● AOB 	<ul style="list-style-type: none"> ● ATT2
<ul style="list-style-type: none"> ● Discussion was held about whether a public sector focus group was needed as public sector entities in Australia and New Zealand consider the future adoption of AASB 17 (as 	

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<p>amended). It was determined by public sector representatives at the AASB TRG that a public sector focus group could usefully discuss emerging issues including:</p> <ul style="list-style-type: none"> ○ issues relating to risk adjustments and skewed distributions ○ 'group' versus 'portfolio' ○ expense attribution <p>consistency of application of AASB 17 (as amended)</p> <ul style="list-style-type: none"> ● It was determined that a public sector focus group would be organised for late 2023/early 2024. ● The Lenders Mortgage Insurance Group and the Medical Indemnity Focus Group have not met for a while and, at this stage, there have been no requests for further meetings. Consideration will be given to whether they may need to be reconvened at some time over the next 12 months. 	
<ul style="list-style-type: none"> ● End Meeting ● 2024 TRG meetings (tentative) March, June and October 	

Attendance

Members	<p>Anne Driver (Chair) Elaine Hultzer Cassandra Cope Brendan Counsell Jennifer Dwyer Anna Donoghoe (for Scott Hadfield) Alana Bailey Sian Mueller David Rush Frank Saliba Rob Sharma Rhian Saunbury (for Rachel Poo) Warwick Spargo Luke Witcher (for Tom Lunn and Eamon Sloane of ICA) Briallen Cummings (for Leann Yuen) Leong Tan Ciara Wasley Eric Cheng Michael Burns</p>
Apologies	<p>Regina Fickers David Daniels Toby Langley</p>
Other presenters	<p>Angus Thomson Anna Donoghoe Greg Matsin Michael Garrod Rhian Saunbury</p>

Secretary	David Ji
AASB Staff	Helena Simkova Patricia Au Jia Wei