Australian Government
Australian Accounting Standards Board

TRG Minutes

Meeting information

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

Agenda:

- IFRS Interpretations Committee (IFRIC) update on AASB 17 *Insurance Contracts* (AASB 17)
- Update from APRA QIS
- Update on the AASB's project on the application of AASB 17 for public sector entities
- Update on tax from the Insurance Council of Australia
- Update from the Private Health Insurance (PHI) focus group
- Discuss an industry paper about cash flows and insurance service result
- Discuss an industry paper about related party reinsurance
- Update from Accountants' and Actuaries' Liaison Committee (AALC)

Topic	Agenda paper
Welcome and introduction	
Welcome and introduction by TRG Chair.	
IFRS Interpretations Committee (IFRIC) update on AASB 17	
• Following the education session on how to amortise the contractual service margin (CSM) of annuity products presented at the IFRIC's February meeting in 2022, an agenda paper proposing two alternative views was released for discussion at the IFRIC March 2022 meeting. • AASB staff provided a high-level description of the two views, as follows: ○ View A – CSM is allocated on the basis of claims payable in each period (recommended IASB staff view); and ○ View B – CSM is allocated based on the sum of the present value of claims expected to be paid over the current and future periods. • A member asked if this means further amendments to AASB 17 could be expected. The staff explained that this is a part of IFRIC's process of addressing implementation questions raised by submissions to the Committee, which, if considered necessary by the IASB, could lead to an amendment by the IASB. A future IASB post implementation	

review of IFRS 17 was also noted as an avenue to identifying any need for an amendment. • TRG Chair added that such questions may also be dealt with by way of the IASB's annual improvement process.	
Updates on APRA QIS	

- A representative from APRA provided an update on the outreach sessions conducted in relation to the APRA QIS, noting that:
  - the overall approach to calibrating the LAGIC framework as noted in a November 2021 letter is to start with the current LAGIC framework and AASB 17, rather than using the change in accounting requirements of the latter as an opportunity to change the capital requirements;
  - in support of the above, AASB 17 measurement and recognition principles have been incorporated into the capital framework within an overall aim of achieving capital neutrality;
  - the main building blocks proposed in the consultation paper will likely remain largely unchanged although APRA would welcome any feedback from the industry, i.e., examples illustrating the challenges in meeting specific APRA requirements;
  - APRA is guided as regulator by the requirements in the legislation which defines what APRA regulates in the insurance industry;
  - for APRA to achieve a practical and pragmatic outcome over a tight timeline feedback by the submission date (31 March 2022) is critical and late feedback will not be considered in the policy consultation process;
  - in response to the feedback, it was noted that accounting transition will be considered separately from the capital transition with a start date of 1 July 2023;
  - in relation to reporting issues identified during outreach, APRA is planning to release a package for Level 2 insurers by early April;
  - in response to the feedback on changing the 2-6 month reinsurance documentation rule, although it was noted that this was originally intended to deal with uncertainty, APRA is open to feedback with any possible solutions; and
  - some of the other queries received by APRA via the outreach activities were in relation to:
    - receivables/payables;
    - GRS 600 *Supplementary Capital Data – Premiums, Claims and Expenses*; and
    - identifying regulated insurers.
  - in relation to the TRG Chair's suggestion of providing an FAQ to share the questions raised at various outreach forums and APRA's responses thereto, APRA will consider a suitable form of communication. [An FAQ and link to APRA connect training were subsequently circulated by the AASB on 23 March 2022 for APRA in response to this question].

- One member asked whether there would be any transitional relief in relation to a new section (paragraph 19) in the capital adequacy prudential standard (APS 112) dealing with the treatment of assets and the associated change of tiering. The APRA representative explained that the paragraph in question was introduced to bring an alignment with the regulatory capital upgrading requirement for ADIs and as it has not been fully considered by APRA, it should be flagged in the submission if applicable.
- The TRG Chair asked how products of non-insurers that were not previously classified as insurance contracts under current insurance standards but which will be treated as such under AASB 17 would be viewed by APRA. As APRA regulates only those entities that fall within the scope of the Insurance Act, it was noted that such entities should seek a legal advice as to whether those contracts would be within the scope of the Act.
- Members mentioned that there are a number of products that would potentially fall within the scope of AASB 17 issued by non-insurers such as funeral plans, insurance arrangements within a group, and insurance-like services provided on digital platforms. APRA noted that it may be useful to collate a list of applicable entities/products. [AASB staff subsequently sent a formal request to TRG members for input in identifying additional products which will be shared with APRA once collated.]
- Regarding the lodgement process, it was noted that:
  - written submissions to prudential standards should be submitted to insurance.policy@apra.gov.au mailbox (email address to be found in the response paper);
  - written submissions to reporting standards should be submitted to data.consultation@apra.gov.au mailbox (email address to be found in the response paper);
  - to be considered as part of the policy consultation process, submissions will need to be made by 31 March 2022; and
  - APRA QIS workbooks are to be submitted via APRA Connect with an accompanying letter outlining the underlying assumptions and explanations (APRA will provide a demonstration of how submissions can be made via APRA Connect).

Updates from public sector insurance project	**ATT1**

- ED 319 *Insurance Contracts in the Public Sector* was published by the AASB and NZASB on 9 March 2022 and is available on the websites of the respective standard setters, open for comment until 9 June 2022.
- The ED proposes public sector specific modifications to AASB 17 including a set of indicators that would be used by entities in the public sector to determine whether their insurance like activities would fall within the scope of AASB 17.
- Public sector focus group meeting is scheduled to be held by early May.
- AASB staff urged entities to contact the AASB directly if they apply the proposed indicators and conclude that their entity is within the scope of AASB 17 (or outside the scope of AASB 17) when they consider it would be more appropriate to be outside the scope (inside the scope).

• No modifications are proposed by the AASB in relation to the requirements for the risk adjustment for non-financial risk. The NZASB proposes to include a rebuttable presumption of applying a 75% probability of sufficiency. • TRG Chair asked if the outreach activities leading up to the publication of the ED had an impact on the proposals. AASB staff noted that, while those discussions resulted in no change to the proposals, stakeholders' request for guidance in determining the most significant indicators was addressed by highlighting those indicators identified by most stakeholders as crucial and adding a specific question on a possible ranking of indicators. • One member noted contract boundary determination as an area of potential challenge for public sector entities, i.e. guidance could lead to an outcome that differs from that of private sector counterparts. • Another member asked about the proposed relief from the sub-grouping requirement of AASB 17. The staff explained that the rationale was based on the fact that the vast majority of contracts in the public sector are onerous and therefore, the proposed relief was intended to avoid imposing a burden on the affected entities to identify profitable contracts.	
Insurance Council of Australia	

• At the December 2021 TRG meeting members were given an update on the developments of tax issues related to the implementation of AASB 17.
• The Special Purpose Insurance Council of Australia Working Group subsequently met with the ATO for a third engagement in which the following points were noted:
  ○ The current Tax Act does not work with AASB 17, particularly with respect to insurance contracts measured applying the general model.
  ○ If the Act changes, consideration needs to be given to how the ATO's justified trust program, which is used to allocate compliance resources across the insurance sector, might be affected.
  ○ The Treasury indicated that, while there is still a pathway to amending the Act, doing so will be difficult.
  ○ For the issue regarding the treatment of government imposts, the Working Group will consider, for example, whether GST is to be treated differently from levies such as the Emergency Service Levy under AASB 17. This issue will be revisited once the Working Group has a revised paper to consider – possibly before the end of March 2022.
  ○ The working group has reached out to the Financial Services Council (FSC) and Private Healthcare Australia to discuss AASB 17 tax implications following the recommendation that was received at the last TRG meeting. As no response has been received from the latter the TRG Chair asked members from PHIs for support to ensure any PHI tax issues were considered.
  ○ The FSC has been discussing tax issues from a life insurance perspective with the Treasury in relation to deferred acquisition cost write-off.
  ○ An update will be provided at the next TRG meeting in June 2022 on the matters above.	

PHI Focus Group: Updates on activities	**ATT2**

The PHI focus group has been meeting since 22 November 2020 and numerous issues arising from the implementation of AASB 17 were discussed at the focus group and subsequently tabled for discussion at the AASB TRG meetings in March, June and September 2021 meetings, respectively and a further paper is tabled at the current meeting having been deferred from December 2021.

Agenda items for the next PHI focus group to be held later in March 2022 are:

- APRA QIS;
- Deferred claim liability; and
- AASB 17 financial statement disclosures.

PHI Focus Group: Cashflows and insurance service result	**ATT3**

Background and summary of paper:

Under AASB 17, cash flows attributable to fulfilling insurance contracts increase the liability for incurred claims (LIC) when the claim is incurred and decrease the LIC when settled.

In the PHI focus group some members expressed a view that:

- if such attributable cash flows are accounted for on the balance sheet applying other accounting Standards (e.g. leases, property, plant and equipment, intangible assets), these would not be included or reclassified into the insurance liability – however, the attributable expense component in profit or loss would still be recognised as insurance service expense; and
- for non-cash items such as depreciation, cash settlement is assumed to have occurred given that there is no subsequent cash settlement for non-cash expenses.

A representative from the PHI focus group noted two presentation approaches related to cash and non-cash expenses which are recognised as an insurance service expense, as follows:

- Approach 1 – apply a different approach depending on whether the expense is cash or non-cash:
  - (1) cash expenses - apportion cash settlement between the LIC and other balance sheet accounts for cash items based on insurance to non-insurance cash flow ratio, effectively allocating a part of the other account balance to the LIC; and
  - (2) non-cash expenses – do not apply the split described in (1) and apply a quasi-cash payment entry to non-cash items to offset the amount recognised in the LIC when the expense was incurred.
- Approach 2 – apply a same approach to both cash and non-cash expenses, i.e., apply (2) of Approach 1 described above.
- The consensus of the PHI focus group industry members is Approach 2 on the basis of:
  - the view that cash payments are unlikely to be tracked to facilitate Approach 1, i.e., accounts do not discern between cash relating to insurance and those relating to non-insurance, and
  - the release of accruals and the take up of the new allocations related to the insurance service expense in the LIC would be relatively consistent year-on-year.
- The PHI focus group members are of the view that Approach 1 would add little value to the usefulness of information for users.

- Industry discussions pointed out that this issue would be even more challenging for insurers with non-insurance business.
- The large accounting firms have not provided clarity on their approach and therefore diversity in practice might arise.

TRG discussion:

- This issue is not specific to PHI insurers and is relevant for general and life insurers.
- This issue is presentation-related and is different from the issue of whether there are circumstances in which premium receivables arising from AASB 17 should be accounted for applying AASB 9.
- Approach 1 may be more correct from a AASB 17 perspective in respect of some cash flows (i.e., those directly attributable as IFRS 17 cash flows) and whether Approach 2 is permissible for these cash flows would depend on materiality and year-on-year consistency and should involve auditor engagement.

Additional notes:

TRG Chair reminded members that focus groups are a way for preparers to distil their ideas and thoughts about how to interpret AASB 17 and views presented do not constitute professional advice. Therefore, entities are encouraged to consult their respective advisors and auditors.

Related party reinsurance	**ATT 4**

Background and summary of paper:

Paragraph 9 of AASB 17 specifies that a set or series of insurance contracts with the same or a related counterparty may need to be treated as a whole if, for example, the rights or obligations in one contract do nothing other than entirely negate the rights or obligations in another contract entered into at the same time with the same counterparty.

Agenda paper ATT4 raises a question as to whether an insurance contract of one insurer (Sub Y) and that insurer's reinsurance contract held reinsured by another insurer (Sub X) within the same consolidated Group should be combined or accounted for as separate contracts. As compensation for taking part in this fronting arrangement, Sub Y earns a fee by deducting a % of the premium received from the underlying contract. In the given fact pattern, Sub Y uses the terms and conditions provided by Sub X who performs all underwriting and pricing activities. Premiums collected by Sub Y (less the fee) are remitted to Sub X and Sub Y pays to settle claims as when instructed by Sub X.

The two views presented in the paper are as follows:

- View A - the two contracts should not be combined based on the fact that the reinsurance does not reduce or eliminate the obligation of Sub Y to a third-party policyholder and that in this scenario the policyholder is a third party as opposed to being the same as, or a related counterparty of, the reinsurer.
- View B – the commercial substance of the arrangement should override the legal form of the contracts and therefore only the fronting fee is accounted for by Sub Y. Sub Y merely acts in the capacity of an agent and "entered into at the same time with the same counterparty" is not a strict requirement.

TRG discussion:

The following key points were raised:

• one member said this may be a broader issue than reinsurance and drew parallels to subsidiaries passing on costs to, or receiving below market expense support from, their parent.
• another member pointed out the importance of considering whether Sub Y is a principal or agent as the fact pattern in the agenda paper calls into question whether the arrangement should be within the scope of AASB 17, i.e., whether Sub Y could be seen as an agent that is not taking on any insurance risk, in which case it could fall under the scope of AASB 15 *Revenue from Contracts with Customers*.
• several members commented that the arrangement in question is not different from a standard arrangement in which the insurance risks from the underlying contracts are ceded to the reinsurer where the insurance contract and reinsurance contract are accounted for separately. These members supported View A, noting that:
  ○ there are two unrelated counterparties; and
  ○ Sub Y does not have a right of offset in accordance with AASB 132 *Financial Instruments: Presentation* because its obligations have not been negated and there is no legal right of offset.	

AALC and Actuaries Institute Taskforce on AASB 17 updates	
The AALC met twice since the last TRG meeting to discuss the APRA QIS and the IFRIC paper on CSM amortisation. The current focus of the Actuaries Institute Taskforce is the Institute of Actuaries' response to the APRA LAGIC framework.	
AOB	
The TRG Chair provided an update on medical indemnity and VFA focus groups, respectively: • The Medical indemnity focus group will reconvene if there are relevant issues to discuss and any information that could be of broader impact to the industry will be shared at the next TRG meeting. • The VFA focus group has not met for the last few months. A VFA working group has been set up under the Actuaries Institute Taskforce and is a good reference point for any preparers with issues to raise. The VFA focus group can be reconvened if needed in future by members.	
End Meeting	

Attendance

Members	Anne Driver (Chair) Anthony Coleman Cassandra Cope Jennifer Dwyer Brendan Counsell Jane Clifford [behalf of Fehraz Fallil] Louise Miller David Rush Warwick Spargo

	Paul Stacey Leong Tan Ciara Wasley Rob Sharma Rhian Saunsbury Frank Saliba Toby Langley Aiden Nguyen Rachel Poo Regina Fikkers Brett Pickett Richard Sheridan Vanessa Mok Leann Yuen
Apologies	Stuart Alexander Scott Hadfield David Daniels Fehraz Fallil
Other presenters	Angus Thomson Anna Donoghoe Zhedi Wu Emily Evitts
Secretary	David Ji
AASB Staff	Eric Lee Patricia Au Helena Simkova