



# Memorandum

<b>Subject:</b>	Insurance Contracts	<b>Meeting:</b>	AASB meeting 152
<b>Contact(s):</b>	Angus Thomson Teng Zhou <a href="mailto:athomson@asb.gov.au">athomson@asb.gov.au</a> <a href="mailto:tzhou@asb.gov.au">tzhou@asb.gov.au</a> (03) 9617 7618 (03) 9617 7642	<b>Agenda item:</b>	10.1
		<b>Date:</b>	6 June 2016
		<b>Project status:</b>	Report to Board on key issues in forthcoming revised IFRS

## Objective at this meeting

- The objective is to:
  - highlight likely key changes from existing Australian and New Zealand GAAP to the revised IFRS 4 *Insurance Contracts*, which is currently in the drafting phase;
  - highlight key issues the AASB/NZASB has raised as concerns for Australian and New Zealand stakeholders, including noting those issues on which the AASB/NZASB did, and did not, manage to achieve preferred outcomes;
  - identify issues of particular significance to the public sector;
  - understand whether any Board members have concerns that might lead them to dissent when asked to vote on adopting the forthcoming revised IFRS 4; and
  - set out the planned steps to complete a revised AASB 4 *Insurance Contracts*.
- In relation (a), (b), (d) and (e), members are asked to identify any further they need to make decisions on a revised AASB 4.
- In relation to (c), members are asked for their views on staff recommendations on the public sector issues raised.

## Structure of the papers

- The following papers are provided for this item:
  - PowerPoint presentation: High-level summary of the likely differences between existing Australian and New Zealand GAAP (AASB 4/NZ IFRS 4,<sup>1</sup> AASB 1023 and AASB 1038) and the revised IFRS 4 – to follow;
  - Staff paper: Table showing IASB ED/2013/7 *Insurance Contracts* proposals, the AASB's comments on that ED and the IASB's subsequent decisions;
  - Staff paper: Implications for public sector insurers of a revised IFRS 4; and
  - Staff paper: Steps to complete a revised AASB 4 *Insurance Contracts*.

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<sup>1</sup> NZ IFRS 4 includes Appendix C *Life Insurance Entities* and Appendix D *Financial Reporting of Insurance Activities* that with some minor exceptions are the same as AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*.

5. The papers for this item generally refer to ‘requirements’ in the forthcoming revised IFRS 4 for the sake of simplicity. However, the IASB’s decisions remain tentative and the IASB may refine those decisions once they are viewed as a whole.

### **Overall staff comments**

6. Staff consider that the forthcoming revised IFRS 4 includes requirements that will both improve and harm financial reporting of insurance contracts in Australia.
7. From an international perspective, a revised IFRS will help bring about greater comparability across jurisdictions and this should generally make insurers’ financial statements more useful. It should result in considerable improvement to the transparency of the reporting in various jurisdictions that are the home base for many major insurers and, to some extent help level the playing field for Australian insurers.
8. In terms of the likely requirements themselves:
  - (a) the main improvements include:
    - (i) greater clarity around the accounting for acquisition costs, particularly for general insurance;
    - (ii) greater alignment with other industries of the basis for revenue recognition for insurance contracts with coverage periods greater than one year; and
  - (b) the main backward steps include:
    - (i) use of historical (inception-date) discount rates in accounting for the contractual service margin (CSM) under the ‘general model’;
    - (ii) use of ‘coverage period’ (rather than pattern of service provision) as the basis for recognising the CSM in profit over the contract life; and
    - (iii) the level of aggregation of contracts for accounting purposes.

### **Staff views and recommendations**

9. Staff recommendations regarding the public sector are included in agenda paper 10.4
10. It is too early to know whether, on a stand-alone basis (comparing the decisions of the IASB so far with the existing Australian/New Zealand accounting); the benefits of adopting a revised IFRS 4 would outweigh the costs. However, in the context of maintaining Australia’s and New Zealand’s status as IFRS-compliant jurisdictions in respect of for-profit entities with public accountability, staff consider it likely that the benefits of adopting a revised IFRS 4 would outweigh the costs of non-adoption.

### **Project Advisory Panel**

11. The AASB Insurance Project Advisory Panel has provided excellent support for AASB staff over an extended period and staff wish to note their appreciation for that support.