



Steps to complete a revised AASB 4

- 1 The objective of this Paper is to advise Board members of the likely steps the AASB will take to adopt a forthcoming revised IFRS 4 *Insurance Contracts*, which will involve:
 - (a) revising or replacing AASB 4 *Insurance Contracts*;
 - (b) withdrawing AASB 1023 *General Insurance Contracts*; and
 - (b) withdrawing AASB 1038 *Life Insurance Contracts*.

Contributing to the IASB drafting process

2. At its May 2016 meeting, the IASB concluded deliberations on the amendments to the existing IFRS 4 and has:
 - (a) scheduled the issue of a revised IFRS 4 after at least another six months, which seems likely to take us into early 2017; and
 - (b) identified the effective date would be no earlier than periods beginning on or after 1 January 2020.
3. To the extent feasible, staff plan to contribute to, the IASB drafting process to help achieve clarity in the requirements and also contribute to emphasising the principles underpinning the standard rather than rules.
4. It is not yet clear how widely the draft revised IFRS 4 will be distributed for review. It may be released in parts, for example, the Standard section itself, followed by the Application Guidance section.
5. Staff hope to see a draft of the revised IFRS 4 in Q3 of 2016. Staff would also hope to be able to obtain input from AASB members and from the AASB's Insurance Project Advisory Panel.

Public sector issues

6. Depending on the Board's feedback from this (June 2016) meeting, AASB staff plan to bring back papers that enable the Board to decide on whether it will propose differences from the revised IFRS 4 for public sector entities and, if so, the process the Board wishes to follow.
7. Staff consider that any proposed differences need not necessarily be settled by the time the revised IFRS 4 is available for making because public sector application could be deferred. It is expected there will be a large time lag between when the revised IFRS 4 is issued and its mandatory application date.

Regulatory burden measure

8. Based on the information we have now about the IASB's decisions, in July 2016, AASB staff plan to estimate a regulatory burden measure of the incremental cost to the private sector of applying the revised requirements in terms of: (a) transition; and (b) ongoing application.

9. As part of estimating this measure, staff will consult with a representative sample of Australian insurance industry stakeholders expected to be impacted by the revised standard. There may be a need to ‘true up’ the regulatory burden measure when the draft revised IFRS 4 becomes available and some of the requirements, particularly around unit of account, might be clarified.
10. The regulatory burden measure will be submitted to the Office of Best Practice Regulation (OBPR) for review. Staff will undertake the steps necessary to obtain OBPR’s agreement with the costings to clear the way for the AASB to make the revised standard. Staff hope to be in a position to have OBPR agreement on a draft of the regulatory burden measure exercise in Q3 of 2016.

Independent review

11. Staff plan to provide the Board with a brief document (as done in relation to IFRS 16 *Leases*) identifying a “Basis for certifying an independent review as a RIS-like process” in respect of the revised IFRS 4. This would replace the need to develop a Regulation Impact Statement (RIS) for the OBPR. This Basis will include the following.
 - (a) An outline the seven steps normally included in a RIS and how the Board has satisfied each step in an alternative manner, such as by reference to particular parts of the IFRS 4 Basis for Conclusions and/or parts of the IASB’s Effects Analysis for the revised IFRS 4. The seven steps (questions) are:
 - (i) What is the policy problem you are trying to solve?
 - (ii) Why is government action needed?
 - (iii) What policy options are you considering?
 - (iv) What is the likely net benefit of each option?
 - (v) Who will you consult and how will you consult them?
 - (vi) What is the best option from those you have considered?
 - (vii) How will you implement and evaluate your chosen option?
 - (b) The regulatory burden measure calculated by the AASB staff and agreed with the OBPR.
12. Staff hope to have the independent review process well underway during Q3 of 2016.

Making a revised IFRS 4

13. The IASB’s work program shows a revised IFRS for insurance contracts being issued “After 6 months”. That indicates the revised IFRS 4 will be available in December 2016/January 2017 at the earliest.
14. Staff plan to provide AASB members with a pre-ballot draft of a revised AASB 4 for review, followed by a ballot draft of a revised AASB 4 for voting as early as feasible. Much depends on the form of the information available from the IASB in the lead-up to issuing a revised IFRS 4 and the timing of the release of the final revised IFRS 4 itself.

Question for Board members

Q1 Do Board members have any questions or concerns about the above steps?