



Memorandum

Subject:	Insurance Contracts	Meeting:	AASB meeting 153
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	(03) 9617 7618 (03) 9617 7642	Project status:	Addressing domestic issues in context of forthcoming IFRS

Objective at this meeting

1. The objective is to:
 - (a) consider whether to continue the AASB’s policy of requiring insurers to measure assets backing insurance liabilities at fair value through profit or loss when feasible under IFRS;¹
 - (b) consider the AASB’s *Process for Modifying IFRS for NFP* to determine whether any modification from the likely requirements of a new AASB standard that incorporates a revised IFRS on insurance contracts should be considered for public sector insurers;
 - (c) consider the status of AASB Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations*; and
 - (d) receive an update on the IASB’s progress in developing a revised IFRS.

Note on terminology

2. AASB staff do not presently have access to a draft of the revised IFRS, but are aware that it has been provisionally named IFRS 17 *Insurance Contracts*. On this basis, staff have chosen to refer to ‘the forthcoming IFRS 17’ as the expected replacement for IFRS 4 *Insurance Contracts* throughout the papers for this agenda item. In addition, when relevant, reference is made to ‘AASB 17 *Insurance Contracts*’ (‘AASB 17’) as the AASB standard that would incorporate IFRS 17.

1 AASB 1023 *General Insurance Contracts*, section 15 and AASB 1038 *Life Insurance Contracts* section 10.

Structure of the papers

3. The following agenda papers are provided for this item:
 - 4.2 Staff paper: Measurement of assets backing insurance liabilities under the forthcoming IFRS 17;
 - 4.3 Staff paper: Analysis of key issues arising from forthcoming IFRS 17 in context of AASB's *Process for Modifying IFRS for NFP*;
 - 4.4 Staff paper: Issues relating to AASB Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations*;
 - 4.5 IASB Insurance 'Feedback Statement'; and
 - 4.6 IASB field test questionnaire.
4. Staff have attempted to prepare agenda papers 4.2 and 4.3 with a view to them potentially also being used as the basis for papers relevant to the NZASB – hence the references to some New Zealand standards and to the New Zealand Accident Compensation Corporation.

AASB's June 2016 meeting decisions

5. The Board noted the IASB's most recent decision making on a forthcoming IFRS 17 that, if adopted, would supersede the existing AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.
6. The Board received an education session on the IASB's decisions and plans to finalise the forthcoming IFRS 17. The Board asked staff to prepare a paper for presentation at the next Board meeting on how the Board might approach the issue of asset measurement in an AASB standard incorporating the forthcoming IFRS 17, in view of the existing Australian requirements to account for assets backing insurance liabilities at fair value through profit or loss.
7. The Board considered a staff paper on issues of potential significance to the public sector and asked staff to prepare a more detailed paper for presentation at the next Board meeting on whether any modifications to an AASB standard incorporating the forthcoming IFRS 17 might be justified for public sector insurers. In that context, staff have discussed the relevant issues with a number of Australian public sector stakeholders and one New Zealand public sector stakeholder.

Staff comments and recommendations

8. A staff recommendation regarding the measurement of assets backing insurance liabilities is included in agenda paper 4.2.

<p>In summary, staff are recommending that an AASB standard incorporating the forthcoming IFRS 17 should not include modifications requiring assets backing insurance liabilities to be measured at FVPL when permitted under IFRS.</p>

9. Staff comments and recommendations on potential public sector entity modifications to an AASB standard incorporating the forthcoming IFRS 17 are included in agenda paper 4.3.

In summary, staff recommend that, depending on the final onerous contract unit of account requirements in the forthcoming IFRS 17, the Board should be prepared to provide relief for public sector insurers for the impact of the interaction between the contract boundary and onerous contract requirements.

10. A staff recommendation regarding the future of AASB Interpretation 1047 is included in agenda paper 4.4.

In summary, staff recommend that AASB Interpretation 1047 be retained for now and be superseded by the forthcoming AASB 17/IFRS 17.

Other developments

IASB's progress in developing the forthcoming IFRS 17

11. The IASB has published a Feedback Statement showing the proposals in ED/2013/7 Insurance Contracts, the broad response to the proposals and the IASB's subsequent decisions – see agenda paper 4.5.
12. Most recently the IASB asked AASB staff to identify one Australian insurer to participate in a field test of the requirements in a draft IFRS. The field test questionnaire is agenda paper 4.6.
13. IASB staff noted that participants may choose to limit testing to one or more topics due to availability of the resources available to them and the applicability of the questions to their products. The IASB is intending to obtain a good coverage of the issues across jurisdictions but not necessarily within each jurisdiction.
14. The IASB's intended timeline for field testing is outlined in the table below.

Timeline Activity	Target date
Confirmation of participation in topic-based testing	8 July 2016
Distribution of draft Standard and questionnaire	Mid July 2016
Conference call with participants	End July 2016
Submission of answers to questionnaire	23 September 2016
Conference calls to discuss final results	26 to 30 September 2016
Presentation of fieldwork results at an IASB meeting	October 2016

15. The four 'preparer' members of the AASB's Insurance Project Advisory Panel met and consulted on entities that should be nominated to participate in the field testing. The

Panel was keen to have two entities participating in the field tests, but staff were unable to arrange this. One Australian entity is currently conducting field testing.

Friendly Societies

16. Friendly Societies continue to sell insurance products and are likely to be affected by an AASB standard incorporating the forthcoming IFRS 17. They would be among the smallest entities selling insurance in Australia.
17. Staff have been consulting with the Australian Prudential Regulation Authority and Friendly Societies to help broaden the understanding of the potential impacts, particularly in the area of life insurance and the 'general model' for measuring insurance liabilities.

Disclosures

18. The IASB decided at its November 2015 meeting to largely confirm the disclosures in ED/2013/7 *Insurance Contracts*. However, on reflection, that decision may not fully take into account all the significant changes/clarifications to the recognition and measurement requirements since ED/2013/7. This includes the changes/clarifications in respect of:
 - ~ the pattern of contractual service margin recognition;
 - ~ discounting of claims liabilities;
 - ~ unit of account for onerous contract measurement and recognition; and
 - ~ participating insurance contract accounting.
19. Staff and the AASB's Insurance Project Advisory Panel have yet to assess the adequacy or relevance of the likely disclosure requirements in the forthcoming IFRS 17.

Regulatory Burden Measure

20. As part of the process of making a significant new or revised AASB standard, the AASB must measure the likely regulatory burden it will impose on business and report that to the Office of Best Practice Regulation and to Treasury.
21. Staff have commenced the work to identify those costs and will be relying on information from stakeholders, including from AASB Insurance Project Advisory Panel members and as a result of the field test experience.