



<b>Project:</b>	<b>Insurance Contracts</b>	<b>Meeting</b>	AASB October 2017 (M160)
<b>Topic:</b>	<b>Draft Discussion Paper – Australian specific issues</b>	<b>Agenda Item:</b>	8.0
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Discussion paper

## Introduction and objective of the meeting

- 1 The objective of this meeting is to seek the Board's comments and decisions relating to Australian-specific insurance issues, including:
  - (a) the draft discussion paper on regulatory disclosures and public sector insurers;
  - (b) the draft illustrative examples relating to public sector insurance arrangements;
  - (c) the interaction between AASB 1056 *Superannuation Entities* and AASB 17 *Insurance Contracts* for consolidating entities; and
  - (d) the proposed project timeline.

## Attachments

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|------------------|---|
| Agenda Paper 8.1 | Draft AASB Discussion Paper <i>Australian specific insurance issues – regulatory disclosures and public sector insurers</i> <b>[Board only]</b> ;                     |
| Agenda Paper 8.2 | Draft <i>Analysis of Arrangements Against insurance-like Criteria: AASB 17 for Public Sector Entities</i> <b>[Board only]</b> ;                                       |
| Agenda Paper 8.3 | Staff collation and analysis of regulatory disclosures from AASB 1038 <i>Life Insurance Contracts</i> being considered for retention;                                 |
| Agenda Paper 8.4 | Meeting minutes of September 2017 Insurance Project Advisory Panel meeting; and   |
| Agenda Paper 8.5 | Advice relating to the existence of a contract in public sector insurance-like arrangements for Board noting <b>[Board only]</b> . To be provided in second mail-out. |

## **Outline of this paper**

2 This paper is structured as follows:

- (a) background to the project (paragraphs 4-6);
- (b) discussion relating to the following key issues:
  - (i) scope of amendments regarding for-profit public sector entities (paragraph 7-9);
  - (ii) discussion paper – format (paragraph 10-13);
  - (iii) public sector issues (paragraph 14);
  - (iv) analysis of arrangements (paragraph 15);
  - (v) regulatory disclosure for the for-profit sector (paragraph 16-21);
  - (vi) superannuation entities issues (paragraph 22-25);
- (c) IPSASB update (paragraph 26-27);
- (d) Insurance Project Advisory Panel update (paragraph 28-30); and
- (e) next steps (paragraph 32).

## **Summary of staff recommendations**

3 The staff recommend the following:

- (a) that the Board agree to expand the scope of the amendments to AASB 17 to include for-profit public sector entities until the public sector guidance has been finalised (currently only NFP public sector entities are excluded);
- (b) that the Board agree with the proposed criteria in the draft Discussion Paper to distinguish insurance like arrangements from contractual insurance arrangements and social benefits. The criteria have been applied in examples set out in Agenda Paper 8.2;
- (c) that the Board agree to issue a discussion paper by 31 October 2017, to be followed by an exposure draft in 2018;
- (d) that the Board do no further work on the interaction between AASB 17 and AASB 1056 when consolidating under AASB 10 *Consolidated Financial Statements* unless constituents explicitly request work to be undertaken;
- (e) that the Board expose in the discussion paper Australian-specific regulatory disclosures from AASB 1038 which have been superseded by AASB 17, with a recommendation that they not be carried forward; and
- (f) that the Board agree to the project timeline developed by Staff for this project.

## Background

- 4 In July 2017 the Board issued AASB 17 *Insurance Contracts*<sup>1</sup>, with a mandatory application date of 1 January 2021 for all entities except:
- (a) superannuation entities applying AASB 1056 *Superannuation Entities*; and
  - (b) not-for-profit public sector entities.
- 5 At its June 2017 meeting the Board considered Agenda Paper 3.1<sup>2</sup> relating to the need, appropriateness and scope for NFP-specific amendments to AASB 17. This paper primarily explored the issue of public sector arrangements that were very similar, if not indistinguishable, from insurance contracts under AASB 17, but would not be within the scope of AASB 17 due to these arrangements arising from statute rather than a contract<sup>3</sup>. The Board was made aware that divergent accounting had already arisen due to this issue pre-AASB 17, with some entities applying AASB 1023 *General Insurance Contracts*, whilst others apply other Standards such as AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.
- 6 At this meeting the Board decided<sup>4</sup> that:
- (a) the prevalence and divergent accounting treatment of non-contractual NFP ‘insurance-like’ arrangements warranted NFP-specific modifications;
  - (b) ‘insurance-like’ arrangements should be accounted for using AASB 17; and
  - (c) modifications to AASB 17 should extend the scope of AASB 17 to include ‘insurance-like’ arrangements, as opposed to following the International Public Sector Accounting Standards Board (IPSASB) approach proposed in its social benefits project, which was deemed unfavourable due to:
    - (i) needing to include several new definitions, such as *social benefit*; and
    - (ii) amendments would only be applicable to insurance-like transactions fully funded by beneficiaries.

The Board did however agree to monitor the IPSASB social benefits project.

## Key issues

### Scope of amendments regarding for-profit public sector entities

- 7 The Board decided in June 2017 that modifications to AASB 17 would be NFP public sector specific and therefore only entities of the NFP public sector and superannuation entities (which were scoped out for an alternate reason to be discussed later in this paper) were excluded from the scope of AASB 17. Subsequent to the issue of AASB 17, Staff have conducted outreach into the types of public sector entities that have

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1 Link to AASB 17: [http://www.aasb.gov.au/admin/file/content105/c9/AASB17\\_07-17.pdf](http://www.aasb.gov.au/admin/file/content105/c9/AASB17_07-17.pdf)

2 Link to Agenda item 3.2 of AASB June 2017 meeting: [http://www.aasb.gov.au/admin/file/content102/c3/3.1\\_Insurance\\_NFP\\_Scope\\_M158.pdf](http://www.aasb.gov.au/admin/file/content102/c3/3.1_Insurance_NFP_Scope_M158.pdf)

3 See Agenda Paper 8.5

4 Link to Action Alert from AASB June 2017 meeting: [http://www.aasb.gov.au/admin/file/content102/c3/185\\_AASB\\_Action\\_Alert\\_27\\_June-2017\\_28\\_6\\_17.pdf](http://www.aasb.gov.au/admin/file/content102/c3/185_AASB_Action_Alert_27_June-2017_28_6_17.pdf)

'insurance-like' arrangements arising from statute, and have identified that 'insurance-like' arrangements identical to those of NFP public sector entities are issued in the for-profit public sector (for example, Victoria's Transport Accident Commission (TAC)).

8 For this reason, Staff recommend that:

- (a) the scope of AASB 17 be amended to exclude all public sector entities; and
- (b) the scope of the public sector amendments be changed from NFP public sector entities to all public sector entities.

9 In regard to paragraph 8(b), Staff considered the proposed amendments against the criteria for when Australian-specific guidance may be justified under the [draft] *AASB For-Profit Standard Setting Framework*, and believe that modifications are justifiable under the following criteria:

- (a) "Australian-specific legislation is not adequately addressed by the IFRS Standard and there has been, or is likely to be, diversity in practice warranting specific guidance", given that:
  - (i) the Australian legal environment does not consider 'insurance-like' arrangements created through statute as contracts; and
  - (ii) therefore, divergent accounting has arisen with some entities applying AASB 1023, whilst others apply other Standards such as AASB 137.
- (b) "issues specific to the public sector are of such prevalence and magnitude that users are likely to make inappropriate decisions based on the financial statements. Consistency across the public sector, rather than consistency with other FP entities, is more important to users. The NFP Standard Setting Framework provides more details", given that:
  - (i) not extending the modifications may result in for-profit public sector entities applying divergent Standards; and
  - (ii) the modifications have already been approved under the NFP Standard Setting Framework.

#### **Question to the Board**

- Q1 Does the Board agree to amend the scope of AASB 17 to exclude all public sector entities until the public sector specific guidance has been finalised?
- Q2 Does the Board agree that the issues outlined are sufficiently significant to warrant modifications for for-profit public sector entities?

#### Discussion Paper – format

- 10 Staff have created a discussion paper for Board consideration (attached as Agenda Paper 8.1. The format of the discussion paper is as follows:
- (a) a preface discussing the key Australian-specific issues for AASB 17 and decisions to date;

- (b) draft amending Standard and guidance for public sector issues; and
  - (c) draft Basis for Conclusions to accompany the draft amending Standard.
- 11 Staff note that a discussion paper would not traditionally include draft wording of a Standard, and that the discussion paper more closely follows the format of an exposure draft.
- 12 Staff have taken this approach with the intention to, after appropriate consultation, revise the discussion paper into an exposure draft, to effectively give constituents two opportunities to review and comment on the wording of the proposals. Staff hope that this will draw out issues earlier than if a traditional approach was taken, leading to more refined proposals by the time of a fatal-flaw review.
- 13 Staff recommend the approach as outlined above, however note that the Board may wish to skip the discussion paper stage and release Agenda Paper 8.1 as an exposure draft, resulting in only one round of public consultation before a fatal-flaw review.

**Question to the Board**

- Q3 Does the Board agree to issue Agenda Paper 8.1 as a discussion paper to allow for two formal consultation periods?

Discussion Paper – Public Sector Issues

- 14 The discussion paper (Agenda Paper 8.1) primarily sets out draft wording for public-sector amendments, including draft criteria for determining whether a public sector arrangement would be insurance-like, accompanied by a draft Basis for Conclusions. Board members should refer to the Basis for Conclusions for Staff rationale in developing the draft amendments (in the interest of not recreating the discussion in this cover memo).

**Question to the Board**

- Q4 Does the Board agree with the discussion in paragraphs E4-E11 of Agenda Paper 8.1 in relation to determining a contract from an agreement arising from statute?
- Q5 Does the Board agree that the criteria in paragraph E13-E14 of Agenda Paper 8.1 sufficiently capture ‘insurance-like’ arrangements within the appropriate boundary? The criteria have been applied to examples in Agenda Paper 8.2.
- Q6 Does the Board believe that the Basis for Conclusions in Agenda Paper 8.1 sufficiently summarises and rationalises the Board’s decisions to date?

Analysis of Arrangements

- 15 Agenda Paper 8.2 sets out a number of arrangements in the public sector which may be considered ‘insurance-like’ and tests them against the criteria in paragraph E13-E14 of the draft discussion paper (Agenda Paper 8.1). This analysis is designed to help preparers understand the interaction between certain fact patterns and the criteria and how the criteria may be used to draw a conclusion. These examples may be either

included as an appendix to the discussion paper (Agenda Paper 8.1), or released as a separate resource.

#### **Question to the Board**

- Q7 Does the Board agree with the conclusions for the examples?
- Q8 Would the Board like to include the analysis of arrangements (Agenda Paper 8.2) as an appendix to the discussion paper (Agenda Paper 8.1) or as separate consultation document?
- Q9 Would the Board like to see any other examples prepared?

#### Discussion Paper – Regulatory disclosures for the for-profit sector

- 16 A consequence of AASB 17 superseding AASB 1023 and AASB 1038 is that some Australian-specific disclosures within AASB 1038 (specifically paragraphs 17.8-17.10 and AASB 17.12.1<sup>5</sup>) are no longer required (as noted in AASB 17.AusBC11). At the time of issuing AASB 17, the Board agreed to consider these disclosures for inclusion in AASB 1054 *Australian Additional Disclosures*.
- 17 Staff have prepared for Board information an outline and analysis of the Australian specific disclosures which can be found in Agenda Paper 8.3.
- 18 Staff considered the history and current usefulness of these disclosures and note that they first arose due to either:
- (a) regulatory requirements most prominently from the Australian Prudential Regulation Authority (APRA); or
  - (b) to align the requirements with those of New Zealand.
- 19 Staff have conducted outreach with the Insurance Project Advisory Panel, which includes representatives from APRA as well as a range of public and private sector preparers and users. Panel members were in agreement that these Australian-specific disclosures should not be carried forward to AASB 1054, for the following reasons:
- (a) the disclosures are likely to be covered by other Standards, such as AASB 17 and AASB 101; and
  - (b) APRA has confirmed that its reporting requirements no longer require such disclosures, and APRA is likely to develop its own set of disclosures for insurance companies in due course.
- 20 The NZASB is also considering the need to continue these disclosures, and Staff intend to monitor the NZASB's progress closely.
- 21 In determining whether to keep any Australian-specific disclosures from AASB 1038, the Board has the option to either:

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5 See Agenda Paper 8.3

- (a) conduct further outreach by exposing the issue within the discussion paper (Staff recommendation);
- (b) further explore the disclosures as part of a separate project; or
- (c) based on the above discussion, decide that the disclosures are no longer required.

#### **Question to the Board**

Q10 Does the Board agree to expose in the discussion paper Australian-specific regulatory disclosures from AASB 1038, which have been superseded by AASB 17, with a recommendation that they not be carried forward?

#### Other issues – Superannuation

- 22 As noted in AASB 17.AusBC21-22, the Board was made aware that some superannuation entities might have for-profit subsidiaries that will apply AASB 17, and were consequently concerned with the interaction between AASB 17 and AASB 1056 *Superannuation Entities* when consolidating under AASB 10 *Consolidated Financial Statements*. AASB 1056 requires insurance liabilities to be measured similarly to defined benefit liabilities, using different assumptions and measurement techniques. Accordingly, when preparing consolidated financial statements in accordance with AASB 10 paragraph B87, using uniform accounting policies, the Board was concerned that there may be additional costs in converting information prepared using AASB 17 to that required by AASB 1056.
- 23 AASB 17.AusBC21 also noted that this issue was not brought to the AASB’s attention by constituents during the development of AASB 1056 or AASB 17.
- 24 Since the release of AASB 17, Staff consulted the Insurance Project Advisory Panel (PAP) on this matter, where it was confirmed that the only entity Staff had identified as possibly facing this issue was structured such that it is not required under AASB 10 to consolidate its insurance contracts accounted for under AASB 17.
- 25 The Board originally decided to add a specific matter for comment on this issue in the exposure draft for this project, however given the above Staff recommend that no further work be conducted on this issue unless the issue is brought to the Board’s attention subsequent to this meeting.

#### **Question to the Board**

Q11 Does the Board agree to do no further work (unless subsequently warranted) on the interaction between AASB 17 and AASB 1056 when consolidating under AASB 10?

#### **IPSASB Social Benefits Project Update**

- 26 Staff are not aware of any major updates on the IPSASB social benefits project since the AASB’s June 2017 meeting.
- 27 The IPSASB intends to release an exposure draft imminently, which includes the insurance approach as outlined in previous meetings. The only change to the insurance

approach decided on at the September 2017 IPSASB meeting was to delete disclosure requirements regarding the number of eligible individuals and households at the reporting date. The IPSASB intends to complete the project by December 2018.

### **Insurance Project Advisory Panel**

- 28 The AASB's Insurance Project Advisory Panel (PAP) has recently been transformed to act as a transition resource group as well as an advisory panel, and has significantly expanded to include stakeholders from a wider range of backgrounds, including public and private sector preparers, auditors, users and regulators.
- 29 A PAP meeting was held in September 2017, where members were asked to consider and comment on the key issues outlined in this paper. Agenda Paper 8.4 provides the Board with the full summary of the meeting. Key messages taken by Staff are as follows:
- (a) PAP members agreed that there was inconsistency in accounting for insurance-like arrangements;
  - (b) PAP members were supportive of the draft criteria for identifying an insurance-like arrangement;
  - (c) PAP members were somewhat unclear on how funding works as an indicator of being an insurance-like arrangement. Various arguments were made regarding whether funding was relevant to the recognition/measurement of a liability, and if it were relevant, its relative importance to recognition/measurement. Staff remain of the view that the recognition/measurement of a liability should not be determined by how the liability is funded;
  - (d) PAP members had not yet formed a strong view on where the line should be drawn between insurance-like arrangements and all social benefits; and
  - (e) concern was raised from a public sector entity regarding the costs and benefits to entities currently applying Standards other than AASB 1023 (in this constituent's case the public sector entity is applying AASB 137) to 'insurance-like' arrangements within the scope of AASB 2017-X (Agenda Paper 8.1). The constituent was of the view that in addition to transition costs, AASB 17 would increase the value of liabilities under insurance-like schemes, and argued that this would result in increased premiums to policyholders with no perceived benefit. Staff considered this argument and reviewed the scheme of the constituent, which Staff considered to be very insurance-like. Staff are of the view that the pricing for insurance coverage and the movement in liabilities arising from extending insurance coverage do not necessarily align and were therefore not convinced that this argument was well grounded from an accounting perspective. Members of the Insurance PAP were supportive of this view.
- 30 Staff considered the PAP's comments and made amendments to the draft discussion paper which are reflected in the discussion paper being considered by the Board at this meeting. Staff note that further outreach should be conducted to identify any other cost/benefit issues.



## Next steps

31 Staff have developed timelines for the project (below) for Board consideration, based on whether the Board decides to release Agenda Paper 3.1 as a discussion paper or exposure draft (see paragraphs 10 to 13). In creating the timelines, Staff had particular regard to:

- (a) the project optimally being completed by, at latest, 31 December 2018, so that any additional guidance would be effective from the same date as AASB 17 for all other entities (being 1 January 2021), given that any additional guidance should be released two years prior to its mandatory application date;
- (b) the appropriate due process for exposure;
- (c) the proposed dates of AASB meetings, and time required for Staff to prepare the materials for those meetings; and
- (d) the risks associated with the project plan and project timeline, which may result in the project taking more time than expected. All options have therefore been given a completion deadline of 31 October 2018.

32 Staff have provided its recommended project timeline:

**Table 1: Draft project timeline**

Meeting <sup>6</sup>	Key objectives – 60 day ED (Approach A)
10 October (This meeting)	Approve discussion paper, release discussion paper by 31 October (approx. 90 day comment period)
Interim activities	News alert, targeted outreach, roundtables, webinar
12-13 Dec 2017	Verbal update on discussion paper comments received thus far
Interim activities	Targeted outreach
14 Feb 2018	Consider comments on discussion paper
Interim activities	Targeted outreach
23 Mar 2018	Approve exposure draft, release by 31 March (approx. 60 day comment period)
Interim activities	News alert, targeted outreach, webinar
10-11 May 2018	Verbal update on exposure draft comments
Interim activities	Targeted outreach
14-15 June 2018	Consider exposure draft comments

**Comment [BJ1]:**

**Note to Board:**

Board members may wish to skip a discussion paper and release an exposure draft instead.

This would result in more time for redeliberations and finalisation in-session. This would also result in less public consultation.

**Comment [BJ2]:**

**Note to Board:**

The Board may wish to change the period to 90 days for the Exposure Draft.

This would result in key objectives being delayed by one Board meeting, and approval of a fatal-flaw review document to happen out-of-session.

<sup>6</sup> meeting dates are not finalised and subject to change

<b>Interim activities</b>	Targeted outreach
<b>3-5 Sep 2018</b>	Approve Fatal-Flaw Review Version (approx. 30 day comment period)
<b>Interim activities</b>	News alert, targeted outreach
<b>Out-of-session</b>	Consider pre-ballot draft/sweep issues, vote on Standard out-of-session before 31 October
<b>Further</b>	Media release, education (presentation, webinar, FAQ)

**Question to the Board**

Q12 Does the Board agree to the proposed project timeline (Table 1)?