



<b>Project:</b>	<b>Insurance Contracts</b>	<b>Meeting</b>	AASB October 2017 (M160)
<b>Topic:</b>	<b>Regulatory Disclosures for for-profit entities</b>	<b>Agenda Item:</b>	8.3
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## Introduction and objective of this paper

- 1 The purpose of this paper is to provide the Board with information relating to the discussion in paragraphs 16 to 20 of agenda item 8.0 of this meeting (Cover Note) regarding Australian-specific regulatory disclosures superseded by AASB 17 *Insurance Contracts*.
- 2 This paper outlines the disclosures being considered, and explores whether the information they require would be required under any other Australian Accounting Standards. The regulations are also considered against the [draft] *AASB For-Profit Standard Setting Framework* to assess whether for-profit amendments are warranted.
- 3 This paper is for Board information only and does not include any questions to the Board.
- 4 This paper is structured as follows:
  - (a) Table 1: current disclosures under AASB 1038 *Life Insurance Contracts* which have not been carried forward in AASB 17 and their similarity to disclosures under existing Standards;
  - (b) Table 2: assessment of criteria for modifying IFRS for for-profit entities; and
  - (c) Appendix A: Extracts from AASB 101 and AASB 17 relating to table 1.

**Table 1: Current disclosures under AASB 1038 which have not been carried forward to AASB 17 and their similarity to disclosures under existing Standards.**

AASB 1038 paragraphs	Specific wording	Where these disclosures may be covered by other Standards
<b>Regulatory capital information</b>		
para 17.8	A life insurer shall disclose the regulatory capital position of each statutory fund. In consolidated financial statements a group shall disclose the regulatory capital position of each life insurer in the group.	Covered by AASB 101.134-136 <sup>1</sup>
<b>Managed funds and other fiduciary activities</b>		
para 17.9	The nature and amount of the life insurer’s activities relating to managed funds and trust activities, and whether arrangements exist to ensure that such activities are managed independently from its other activities, shall be disclosed.	AASB Staff not aware of any equivalent requirements
<b>Actuarial information</b>		
para17.10	The following shall be disclosed in the notes:	
(a)	if other than the end of the reporting period, the effective date of the actuarial report on policy liabilities and regulatory capital reserves;	Information should come through disclosures in AASB 101.134-136 <sup>1</sup>
(b)	the name and qualifications of the actuary;	AASB Staff not aware of any equivalent requirements

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<sup>1</sup> See Appendix A for specific wording of existing disclosures under AASB 101/17

AASB 1038 paragraphs	Specific wording	Where these disclosures may be covered by other Standards
(c)	whether the amount of policy liabilities has been determined in accordance with the requirements of the Life Insurance Act; and	Information should come through disclosures in AASB 101.134-136 and/or AASB 17.117-120 (significant judgements disclosures) <sup>1</sup>
(d)	whether the actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined.	This should be apparent from disclosures under AASB 17.117-120 (significant judgements disclosures) <sup>1</sup>
<b>Other Disclosures</b>		
para17.12.1	Australian Accounting Standards and the Life Insurance Act differ in their requirements. Accordingly, life insurers are encouraged to disclose a reconciliation between:	Covered by AASB 101.134-136 <sup>1</sup>
(a)	the profit for the reporting period reported under Australian Accounting Standards and the profit for the reporting period reported under the Life Insurance Act; and	
(b)	the retained earnings at the end of the reporting period in accordance with Australian Accounting Standards.	

**Table 2: Assessment of criteria for modifying IFRS for for-profit entities.**

<b>Criteria for modifying IFRS for publicly accountable entities</b>	Regulatory Capital Information disclosures <sup>2</sup>	Managed funds and other fiduciary activities disclosures <sup>2</sup>	Actuarial information disclosures <sup>2</sup>
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, eg Australian petroleum resource rent tax.	Compliance with Life Insurance Act is Australian specific legislative issue	Not Australian specific issue as international insurers also offer other fiduciary products	Not Australian specific information being requested. International insurers also use internal and external actuaries to prepare their estimates
An existing optional treatment in the IFRS Standard is not consistent with Australian-specific legislation and should therefore be eliminated.	N/a	N/a	N/a
Users require additional disclosures regarding Australian-specific issues that are not likely to be provided voluntarily, eg franking credits.	?	?	?
Australian public interest issues relevant to financial reporting require additional disclosures (eg audit fees). Such disclosures must:	Regulatory compliance with Life Insurance Act generally covered already by AASB 101 disclosures re regulatory capital- extra details not	Disclosure originated from a NZ requirement and not known to be an Australian public interest issue. Australian regulatory environment has limited the	No known public interest issues

<sup>2</sup> See Table 1 (above) for specific wording of Australian specific disclosures from standards superseded by AASB 17

Criteria for modifying IFRS for publicly accountable entities	Regulatory Capital Information disclosures <sup>2</sup>	Managed funds and other fiduciary activities disclosures <sup>2</sup>	Actuarial information disclosures <sup>2</sup>
	likely to be of significant additional benefit	amount of participatory products offered (unlike internationally) – products where profits/losses shared between the insurer and the beneficiary	
<ul style="list-style-type: none"> <li>– meet the objectives and qualitative characteristics of financial reporting as set out in the Conceptual Framework;</li> </ul>	No	No	Not necessary for user understanding as AASB 17 requires specific information on methodologies and assumptions used which should provide adequate information
<ul style="list-style-type: none"> <li>– have strong user support;</li> </ul>	?	?	?
<ul style="list-style-type: none"> <li>– deliver user benefits that outweigh any undue cost or effort for preparers, including impacts on international competitiveness; and</li> </ul>	Limited costs, already disclosing this information, however international counterparts are not required to disclose this level of detail	Limited costs, already disclosing this information, however international counterparts are not required to disclose this level of detail	Limited costs, already disclosing this information, however international counterparts are not required to disclose this level of detail
<ul style="list-style-type: none"> <li>– no other existing legislative or voluntary reporting frameworks provide the information</li> </ul>	No, reports to APRA are not made public	Yes, covered by Corporations Act section 299A and Regulatory Guide	No

<b>Criteria for modifying IFRS for publicly accountable entities</b>	Regulatory Capital Information disclosures <sup>2</sup>	Managed funds and other fiduciary activities disclosures <sup>2</sup>	Actuarial information disclosures <sup>2</sup>
or are more appropriate avenues to obtain the information.		<i>247 Effective Disclosure in an Operating and Financial Review</i> require disclose of strategies, risk and key mitigating processes. Risks of not separately managing fiduciary responsibilities should be identified there	
Current Australian practices will impose additional costs and/or time to transition to a new IFRS Standard when compared with international counterparts, warranting deferral of the application date.	N/a – already disclosing this information	N/a – already disclosing this information	N/a – already disclosing this information
Current Australian practices will impose additional costs and/or time to transition to a new IFRS Standard when compared with international counterparts, warranting deferral of the application date.	N/a – already disclosing this information	N/a – already disclosing this information	N/a – already disclosing this information
<b>Other for-profit entities</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	Consistency with for-profit sector likely to be more relevant if for profit public sector entities with insurance arrangements, if also		No specific public sector issues

<b>Criteria for modifying IFRS for publicly accountable entities</b>	Regulatory Capital Information disclosures <sup>2</sup>	Managed funds and other fiduciary activities disclosures <sup>2</sup>	Actuarial information disclosures <sup>2</sup>
Setting Framework provides more details.	have to meet Life Insurance Act requirements		
Undue cost or effort assessment indicates that the costs of preparing and disclosing information outweigh the user benefits. Such considerations may arise from application issues due to unfamiliar terminology, current practice issues, or replicating disclosures required by other existing legislation.	No duplicative legislation identified, terminology likely to be understood by any for profit public sector entities issuing insurance		No duplicative legislation identified, terminology consistent between sectors

## **Appendix A: Extract of specific wording as reference for Table 1**

### **A.1 AASB 101 Para 134-136 (reference for table 1)**

#### **Capital**

134	<b>An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.</b>
135	To comply with paragraph 134, the entity discloses the following: <ul style="list-style-type: none"><li>(a) qualitative information about its objectives, policies and processes for managing capital, including:<ul style="list-style-type: none"><li>(i) a description of what it manages as capital;</li><li>(ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and</li><li>(iii) how it is meeting its objectives for managing capital.</li></ul></li><li>(b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).</li><li>(c) any changes in (a) and (b) from the previous period.</li><li>(d) whether during the period it complied with any externally imposed capital requirements to which it is subject.</li><li>(e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.</li></ul> <p>The entity bases these disclosures on the information provided internally to key management personnel.</p>
136	An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

### **A.2: AASB 17 Paragraphs 117-120:**

#### **Significant judgements in applying AASB 17**

117	An entity shall disclose the significant judgements and changes in judgements made in applying AASB 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including: <ul style="list-style-type: none"><li>(a) the methods used to measure insurance contracts within the scope of AASB 17 and the processes for estimating the inputs to those methods. Unless impracticable, an entity shall also provide quantitative information about those inputs.</li><li>(b) any changes in the methods and processes for estimating inputs used to measure contracts, the reason for each change, and the type of contracts affected.</li><li>(c) to the extent not covered in (a), the approach used:<ul style="list-style-type: none"><li>(i) to distinguish changes in estimates of future cash flows arising from the exercise of discretion from other changes in estimates of future cash flows for contracts without direct participation features (see paragraph B98);</li><li>(ii) to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;</li><li>(iii) to determine discount rates; and</li><li>(iv) to determine investment components.</li></ul></li></ul>
118	If, applying paragraph 88(b) or paragraph 89(b), an entity chooses to disaggregate insurance finance income or expenses into amounts presented in profit or loss and amounts presented in other comprehensive income, the entity shall disclose an explanation of the methods used to determine the insurance finance income or expenses recognised in profit or loss.
119	An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.
120	An entity shall disclose the yield curve (or range of yield curves) used to discount cash flows that do not vary based on the returns on underlying items, applying paragraph 36. When an entity provides this disclosure in aggregate for a number of groups of insurance contracts, it shall provide such disclosures in the form of weighted averages, or relatively narrow ranges.