



Staff Paper

Project:	Insurance Activities in the Public Sector	Meeting:	AASB September 2022 (M190) NZASB October 2022 (M103)
Topic:	Coverage period and eligibility for the premium allocation approach	Agenda item:	AASB 4.4 NZASB 7.4
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		Project priority	Medium
		Decision-making	High
		Project status	Feedback on AASB ED 319 / NZASB ED 2022-3

Objectives of this paper

1. In respect of the measurement of liabilities for remaining coverage, the objectives of this paper are to:
 - (a) CONSIDER comments received on questions 4 and 5 of AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector*; and
 - (b) DECIDE whether to:
 - (i) proceed with the proposed guidance on coverage periods in a public sector context;
 - (ii) provide an accounting policy choice for applying the premium allocation approach; and
 - (iii) proceed with modified proposed disclosure requirements about the pricing process.

Structure of this paper

2. This paper is structured as follows:

Part A: Coverage period

[Section 1:](#) Background on ED proposals

[Section 2:](#) ED respondents' feedback

[Section 3:](#) Staff analysis – additional guidance on coverage period

[Section 4:](#) Staff recommendations and question for the Boards

Part B: Eligibility for the premium allocation approach

[Section 1:](#) ED respondents' feedback

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[Part C](#): Disclosure about long-run pricing

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[Appendix A](#): Collation of comments on questions 4 and 5 of AASB ED 319/NZASB ED 2022-3

[Appendix B](#): Factors for assessing modifications in not-for-profit or PBE sector Standards

Part A: Coverage period

Section 1: Background on ED proposals

3. One of the key differences between existing insurance accounting practices in Australia and New Zealand and AASB 17/PBE IFRS 17 requirements, are the requirements for identifying contract boundaries and coverage periods.
4. Coverage periods are crucial for two main reasons:
 - (a) identifying the cash flows used to measure liabilities for remaining coverage for in-force arrangements; and
 - (b) determining whether liabilities for remaining coverage for in-force arrangements are eligible to be measured using a simplified basis [the premium allocation approach].
5. The contract boundary and coverage period end when an entity's substantive obligation to provide insurance contract services ends, which is when:
 - (a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks [AASB 17/PBE IFRS 17.34(a)]; or
 - (b) both of the following criteria are satisfied:
 - (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - (ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date [AASB 17/PBE IFRS 17.34(b)].

Practical ability

6. In relation to the contract boundary criteria, the Boards noted there may be issues specific to the public sector that were not necessarily considered by the IASB in the development of IFRS 17, which include:
 - (a) whether a public sector entity (itself) would be regarded as having the practical ability to set prices and benefits, or whether that power lies more broadly with government, including for example, the relevant Minister(s); and
 - (b) assessing the practical ability to set prices and benefits for a monopoly provider that cannot cease insuring risks by withdrawing from the market.



Monopoly position and standing ready

7. The Boards observed that, for a public sector entity, a monopoly position might imply the provision of ‘perpetual’ coverage because:
 - (a) while the entity has the power to charge above-market levies/premiums;
 - (b) it could also be regarded as having the responsibility to keep providing insurance services to a community of policyholders in perpetuity, or at least until there is legislative change and/or structural changes to the markets served [AASB ED 319.BC67/NZASB ED 2022-3.BC79].

Monopoly position and long-run pricing

8. The Boards observed that the pricing of levies/premiums for many public sector entities is based on achieving a break even result over the long-term. Accordingly, in some cases, the actual amounts charged in any given period might be regarded as being the result, in part, of taking into account the risks that relate to periods after the current contract period. In these cases, the criterion in AASB 17/PBE IFRS 17.34(b)(ii) would not be met and the arrangements would be regarded as, for example, involving a multi-year coverage period, even though the contractually-stated coverage period might be one year.
9. The Boards noted that public sector entities are more likely than their private sector counterparts to have overriding public policy objectives imposed upon them that would necessitate medium to long-term pricing and benefits approaches. The Boards observed that applying AASB 17/PBE IFRS 17 unamended might have a range of related implications, including having to estimate the average time that a policyholder is expected to keep participating in the scheme to determine a coverage period, which would be impracticable.
10. The Boards decided, for the avoidance of doubt, to propose guidance in the Standard regarding public sector entities’ practical ability to set prices and benefits and monopoly position in providing coverage for risks, as noted in proposed paragraphs¹ [Aus]34.1 and [Aus]34.2 in the ED.
11. The Boards’ considerations on coverage periods are outlined in AASB ED 319.BC57 to BC85 / NZASB ED 2022-3.BC69 to BC97.
12. The ED proposed to add paragraphs [Aus]34.1, [Aus]34.2 and [Aus]B64.1 to provide guidance on identifying the coverage period of an insurance contract in a public sector context. In addition, the Boards proposed to add paragraph [Aus]34.3 to require additional disclosures about a public sector entity’s pricing process. Those paragraphs have been reproduced in the box below for the Boards’ reference. Paragraphs 33, 34 and B64/AG64 are not amended but are included to provide context.

1 Both Boards have a policy of numbering paragraphs that are added to the IFRS text using the IFRS Standard paragraph number, following by a decimal point and unique consecutive numbering. The AASB also uses an ‘Aus’ pre-fix, while the NZASB has no prefix.



...

Estimates of future cash flows (paragraphs B36–B71)²

...

33 An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:

- (a) **incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.**
- (b) **reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).**
- (c) **be current – the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).**
- (d) **be explicit – the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).**

34 Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with insurance contract services (see paragraphs B61–B71). A substantive obligation to provide insurance contract services ends when:

- (a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks;
- (b) both of the following criteria are satisfied:
 - (i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio;
 - (ii) the pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.

[Aus]34.1 In respect of paragraph 34(a) and (b)(i):

- (a) assessing a public sector entity’s practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;
- (b) a public sector entity’s monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity’s practical ability to fully price for risks or benefits; and
- (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits.

[Aus]34.2 Notwithstanding paragraph 34(b)(ii), a public sector entity would not be regarded as failing to meet the criterion in paragraph 34(b)(ii) simply because its premium pricing for coverage up to the date when the risks are reassessed takes into account risks that relate to periods after the reassessment date, due to having a policy of



determining prices and benefits based on a medium to long term view.

[Aus]34.3

When a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period, it shall disclose information about the nature of the pricing process; including information about:

- (a) the manner in which pricing or benefits are determined;
- (b) the timeframes for which they are typically determined; and
- (c) any other relevant constraints under which an entity operates;

either in the notes to the financial statements or by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time.

...

Appendix B Application guidance

Cash flows within the contract boundary (paragraph 34)

...

B64 Paragraph 34 refers to an entity's practical ability to set a price at a future date (a renewal date) that fully reflects the risks in the contract from that date. An entity has that practical ability in the absence of constraints that prevent the entity from setting the same price it would for a new contract with the same characteristics as the existing contract issued on that date, or if it can amend the benefits to be consistent with the price it will charge. Similarly, an entity has that practical ability to set a price when it can reprice an existing contract so that the price reflects overall changes in the risks in a portfolio of insurance contracts, even if the price set for each individual policyholder does not reflect the change in risk for that specific policyholder. When assessing whether the entity has the practical ability to set a price that fully reflects the risks in the contract or portfolio, it shall consider all the risks that it would consider when underwriting equivalent contracts on the renewal date for the remaining service. In determining the estimates of future cash flows at the end of a reporting period, an entity shall reassess the boundary of an insurance contract to include the effect of changes in circumstances on the entity's substantive rights and obligations.

[Aus]B64.1

Public sector entities often operate within a broad government policy framework that takes into account general economic circumstances and community needs and not only the circumstances specific to the entity and its policyholders. For example, there may be cases when the entity's management, including relevant government Minister(s), deliberately phases in price increases or decreases (or benefit adjustments) over a long period to help individuals or businesses manage through an economic cycle. Although the phasing in process might notionally take into account risks relating to a number of coverage periods, this is not the motivating factor. The broader policy objectives are the motivating factor. Therefore, in the context of AASB 17 paragraph 34(b)(ii), the public sector entity would not be regarded as taking into account the risks that relate to periods after the reassessment date.

2 For PBE IFRS 17 these paragraph references would be AG36-AG71 and all the references to 'B' paragraphs would similarly be to 'AG' paragraphs in PBE IFRS 17.



Section 2: ED respondents' feedback

13. All respondents who commented on the proposals were supportive, based largely on the reasons provided by the Boards. However, some respondents sought further modifications or consider the proposed modifications insufficient.
- (a) Three respondents [TSY NZ, ACC, EQC] want the Boards to provide more guidance for situations in which there is an established practice of, or regulatory requirement for, periodic pricing reviews, such as every five years, which may appear to give rise to multi-year coverage periods, but do not in fact remove the practical ability to re-price for risk on a more frequent basis.
 - (b) One respondent [ACAG] wants more guidance on the meaning of coverage when arrangements are essentially statutory and are linked to an underlying insurance contract sold by a commercial insurer.³ They are concerned that there could be confusion over whether the coverage would be regarded as: (i) the same as the underlying insurance contract; or (ii) the period over which claims are expected to be settled.

Section 3: Staff analysis – additional guidance on coverage period

14. Staff consider that providing the additional guidance sought by respondents would be generally consistent with the Boards' existing approach and could build on the proposed paragraph [Aus]B64.1 using material in the Basis for Conclusions [AASB ED 319.BC57 to BC70 / NZASB ED 2022-3BC69 to BC82]. There appears to be nothing in the additional guidance sought by respondents that is inconsistent with the Boards' proposals.

Section 4: Staff recommendations and question for the Boards

15. Staff recommend proceeding with the proposal to provide guidance on coverage period and contract boundary but changing the guidance (from the ED proposals) as follows.
- (a) Add guidance regarding coverage period for situations in which there are formal periodic pricing reviews, which may appear to give rise to multi-year coverage periods, but do not in fact remove the practical ability to re-price for risk on a more frequent basis.

<u>[Aus]34.X</u>	<u>Public sector entities may have an established practice of, or regulatory requirement for, periodic pricing reviews, for example, once every three years. In considering a particular contract or portfolio of contracts, the formal review process may indicate that there is a multi-year coverage period even though the individual contracts themselves are annual, because risks are not formally reassessed each year. However, in many cases, the public sector entity is not restricted by the formal process from reassessing risks more frequently when the need arises. Accordingly, in identifying when a public sector entity has the practical ability to reassess risks, it is important to consider the substance of the arrangements under which the entity operates.</u>
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- (b) Add guidance on the meaning of 'coverage' to avoid potential confusion over whether it relates to an underlying insurance contract or the period over which claims might arise, in situations when arrangements are essentially statutory and are linked to an underlying insurance contract sold by a commercial insurer.

³ For example, Compulsory Third-Party [CTP] personal injury insurance in some Australian states.



[Aus]34.X

Public sector entities may issue insurance contracts that are related to the issue of an insurance contract by a private sector insurer. For example, a private sector insurer may issue a contract that insures for 80% of a policyholder's risks and pay a levy to a public sector entity that insures for the other 20% of a policyholder's risks from events that might arise over a one-year period. In determining the contract coverage period, the public sector entity has regard to the underlying period of coverage [in the example, one year], not the period over which claims might need to be settled.

Question for Board members

Q1: Do Board members agree with the staff recommendations for additional guidance on pricing reviews and the meaning of coverage? If not, please provide your alternative view and reasons for that view.

Part B: Eligibility for the premium allocation approach

Section 1: ED respondents' feedback

16. Two respondents [HoTARAC, iCare] are concerned that there are some public sector arrangements which involve multi-year coverage and would not be eligible to measure the liability for remaining coverage applying the premium allocation approach (PAA). They recommend the Board consider permitting all public sector entities to apply the PAA [that is, a blanket exemption from applying the general measurement model (GMM)] for not-for-profit public sector entities.
17. These respondents consider the cost of maintaining the relevant systems for applying the GMM would outweigh the potential value of the information generated. Staff have note that similar concerns have been expressed by stakeholders who were interviewed but did not subsequently make a formal response to the ED.

Section 2: Staff analysis – eligibility for the premium allocation approach

18. The longer the coverage period, the more likely it is that cash flow variability would make the arrangement ineligible for the PAA because it becomes more difficult to establish that the liabilities for remaining coverage are not materially different between applying the GMM and PAA. Public sector insurance arrangements are expected to typically have coverage periods of:
 - a year in relation to insurance contracts issued;
 - one to three years in relation to reinsurance contracts held.
19. However, some public sector arrangements that involve relatively long coverage periods can include the following:
 - Domestic building risks are the subject of public sector arrangements in most Australian states and territories. Most of these arrangements have coverage periods of six or seven years. In those states that have commercial insurers issuing the underlying policies and provide multi-year reinsurance arrangements, the coverage periods might be longer*.

[*For example, a reinsurance contract issued to accept risks from 1 July 2023 to 30 June 2026 in respect of underlying insurance contracts with coverage periods of six years would have a [combined] coverage period of nine years from 1 July 2023 to 29 June 2032. [That is, the last six-year contract could attach on 30 June 2026 and extend the reinsurance contract issued to



29 June 2032.] However, if the public sector reinsurer can, for example, seek annual price adjustments during the three-year term, the reinsurance contract could be regarded as having a coverage period similar to the underlying contracts issued by the commercial insurers, being six years.]

- Long-term engineering and construction contracts are often linked to government infrastructure projects in Australia, and may take ten or more years to complete. Although most of these arrangements are held by ‘captive’ insurers, which are the subject of Agenda paper 4.7/7.7.
20. In AASB ED 319.BC53 / NZASB ED 2022-3.BC65, the Boards noted: “that creating an accounting system capable of implementing the general measurement model, of itself, could involve significant costs, even if it only needs to be applied to some of an entity’s arrangements.” Nonetheless, the Boards did not propose a blanket application of the PAA.
 21. There is a range of reasons for arguing that the GMM would be unsuitable for public sector entities and may not necessarily provide information that is any more relevant than the information that would be produced applying the PAA. However, staff also note that either mandating the PAA for public sector entities, or making it available as an accounting policy choice regardless of the circumstances, would be a significant modification.
 22. [Appendix B](#) summarises factors to be considered when assessing need for a modification of the not-for-profit or PBE sector Standards as set in the Boards’ frameworks [XR Policy Approach to Developing the Suite of PBE Standards \[2020\]](#) and [AASB Not-for-Profit Entity Standard-Setting Framework \[2021\]](#).
 23. The most relevant factors are the general assessments of whether:
 - having public sector entities applying the PAA when a strict application of AASB 17/PBE IFRS 17 would otherwise require the entity to apply the GMM would deprive users of useful information; and
 - any benefits a user may enjoy from having an entity apply the GMM instead of the PAA would justify the costs.

Assessment of costs versus benefits of applying the GMM compared with the PAA

24. Staff note that, assuming the proposed modifications relating to sub-grouping (discussed in Agenda Paper AASB 4.2/NZASB7.2) proceed, a portfolio of contracts would be the main unit of account for public sector entities.
25. The key difference between the GMM and PAA is the contractual service margin that represents unearned profit at contract inception – yet most public sector insurance arrangements are break even or loss making. The contractual service margin accretes interest over time based on the initial recognition date discount rate, whereas, other cash flows are discounted at current rates.
26. For public sector arrangements, there would typically be a loss component under the GMM, not a contractual service margin. A loss component would need to be tracked so that changes in cash flows can be allocated systematically between the loss component and the liability for remaining coverage excluding the loss component. However, this would be done on a portfolio basis and, unless, the whole portfolio became profitable, all cash flows would be discounted at current rates.
27. Similar losses would typically still be recognised using the PAA because the deferred premiums received would need to be compared with an up-to-date assessment of expected cash flows, which is essentially the same as the existing accounting under the AASB 1023/PBE IFRS 4



Liability Adequacy Test. There would typically be only a small likelihood of a whole portfolio being profitable and, therefore, a different pattern of profit and loss recognition emerging under the GMM compared with the PAA.

28. In the unlikely event that contracts issued by public sector entities would generate a contractual service margin under the GMM, the entity would need to determine a pattern of coverage to allocate the margin, which may be different from the pattern of release from risk. There could be two components of revenue [coverage and release of risk] that need to be tracked.
29. It seems unlikely that the users of the public sector entities' financial statements would place much value on having two separate patterns for revenue recognition. That is, it seems likely that users would be satisfied with all revenue being recognised based the pattern of risk, which is the basis that applies to under the PAA.

Public sector entities versus private sector not-for-profit/public benefit entities

30. Staff are conscious that an accounting policy choice to apply the PAA has not been provided to private sector not-for-profit/public benefit entities in AASB 17/PBE IFRS 17.
31. However, staff note that there are important distinctions between the public and private sectors that provide a conceptual underpinning for a differential approach between the two sectors. These distinctions are also important in measuring risk adjustments and are set out in Agenda paper 4.6. The most significant distinctions are summarised here as follows:
 - NFP private sector entities would typically need to rely on their own resources to maintain solvency, which could involve building [and, when necessary, re-building] reserves, by including a 'profit' margin into the pricing of their services. That is, even though these entities may not seek to make a profit from their activities, they would often still generate reserves that are subsequently re-distributed to customers/members.
 - All private sector entities that issue insurance contracts in Australia and/or New Zealand, including for-profit and NFP private sector entities, would need to be registered as insurers and would face prudential regulation and need to hold risk-weighted regulatory capital.
32. Given there is typically a margin in the pricing of their services provided by private sector not-for-profit/public benefit entities, the GMM, which includes specific requirements for the recognition and measurement of the 'contractual service margin', is likely to be relevant to those entities.

Section 3: Staff recommendation and question for the Boards

33. On balance staff consider that:
 - (a) the practical differences between the accounting outcomes of applying the PAA or the GMM are unlikely to be material in a public sector context in most cases;
 - (b) the possible difference between the pattern of recognition of any contractual service margin component of the liability for remaining coverage is unlikely to influence users' decision making;
 - (c) the costs of establishing and operating a system to produce information that might be needed in applying the GMM to every possible scenario that might arise would probably be considerable, and is unlikely to be used for management purposes; and



- (d) few public sector insurance arrangements are likely to be ineligible for the PAA, yet the process of justifying eligibility for any contracts with coverage period of more than a year can, of itself, be resource intensive and may need to be periodically repeated.
34. Accordingly, staff recommend providing public sector entities an accounting policy choice to always apply the PAA, without the need to consider the eligibility criteria, by adding paragraph [Aus]53.1 shown in the box below.

Premium allocation approach

53 An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach set out in paragraphs 55–59 if, and only if, at the inception of the group:

- (a) the entity reasonably expects that such simplification would produce a measurement of the liability for remaining coverage for the group that would not differ materially from the one that would be produced applying the requirements in paragraphs 32–52; or
- (b) the coverage period of each contract in the group (including insurance contract services arising from all premiums within the contract boundary determined at that date applying paragraph 34) is one year or less.

[Aus]53.1 Notwithstanding paragraph 53, a public sector entity may choose to apply the premium allocation approach in cases when none of the conditions for eligibility are met.

Question for Board members

Q2: Do Board members agree with the staff recommendation to allow an accounting policy choice for public sector entities to apply the PAA? If not, please provide your alternative view and reasons for that view.

Part C: Disclosure about long-run pricing

Section 1: Background on ED proposals

35. The Boards considered that the medium to long-term pricing and benefits approaches adopted by many public sector entities should be the subject of disclosure, as the disclosure could provide useful context for users of the financial statements [ED 319.BC83/ED 2022-3.BC95].
36. The Boards proposed that, when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period, it should be required to disclose information about the manner in which pricing/benefits are determined and the timeframes for which they are typically determined.

Section 2: ED respondents' feedback

37. Few respondents commented specifically on the proposed disclosure. However, concerns were expressed about:
- the potential need to disclose commercially sensitive information [iCare, PwC]
 - the information being of little value to users [HoTARAC]
 - audit and other related cost ramifications of cross-referencing to information in external materials [KPMG], which could also need to be reviewed.



Section 3: Staff analysis – disclosure about long-run pricing

38. Given the feedback for requiring disclosures by an entity that takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period, staff consider that disclosure should still be required, but in a modified form.
39. In particular, staff note the following:
- (a) The disclosure could apply to all public sector entities applying the Standard [not only those regarded as taking into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period]. This is on the basis that it would avoid entities having to decide whether their pricing policy involves determining prices and benefits over a period longer than a single coverage period.
 - (b) To avoid commercial sensitivities, guidance could emphasise that the disclosure of information about the manner in which pricing/benefits are determined and the timeframes for which they are typically determined is expected to be relatively brief and high level, such as:
 - disclosing the timeframes for which prices are typically determined; and
 - identifying the relevant government regulations or laws under which pricing processes are conducted.
 - (c) To address concerns of some respondents about the audit of cross-referenced material, the disclosure of the relevant regulations or laws under which pricing processes are conducted could be included in the notes to the financial statements, particularly if they are expected to be brief.
 - (c) In the interests of making the disclosures brief, public sector entities applying the Standard could be required to disclose in the notes to the financial statements:
 - the timeframes for which prices are typically determined; and
 - the relevant government regulations or laws under which pricing processes are conducted, without the need for any further explanation.

Section 4: Staff recommendation and question for the Boards

40. Staff recommend adjusting the proposed disclosure requirement as shown in the box below. The draft paragraph is marked up for changes from the paragraph proposed in AASB ED 319 / NZASB ED 2022-3.

[Aus]34.3	<p>When a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period, it shall disclose information about the nature of the pricing process; including information about:</p> <ul style="list-style-type: none"> (a) — the manner in which pricing or benefits are determined; (a) <u>(b)</u> the timeframes for which <u>pricing and benefits</u> they are typically determined; and (b) <u>(c)</u> any other relevant <u>regulations or laws</u> constraints under which <u>prices and benefits are set</u> an entity operates; <p><u>The information is expected to be brief and to direct users to the relevant either in the notes to the financial statements or by reference to an authoritative sources that is available to users to gain an understanding of the processes for setting prices and</u></p>
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~~benefit of the financial statements on the same terms as the financial statements and at the same time.~~

Question for Board members

Q3: Do Board members agree with the staff recommendation? If not, please provide your alternative view and reasons for that view.



Appendix A: Collation of comments on questions 4 and 5 in AASB ED 319 / NZASB ED 2022-3

Q4: Do you agree with the proposed guidance on coverage periods [in paragraphs [Aus]34.1, [Aus]34.2 and [Aus]B64.1/AG64.1], which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context?

Please note that a reference to the GMM [general measurement model] is a reference to the fulfilment cash flows measurement model under AASB 17/ PBE IFRS 17.

Respondent	Summary of comments
PwC	<p>Agree – in the absence of the proposed guidance, some contracts may be viewed as having an indefinite term, which may not be practical and could result in misleading or inaccurate information being reported.</p> <p>Public sector insurers take a longer-term approach to pricing. Determining the contract boundary for public sector insurance contracts, in accordance with AASB 17.34(b)(ii) would require significant judgement and could result in frequent revisions in the original assessment.</p>
TSY NZ	<p>Agree – but additional guidance is needed.</p> <p>Treasury agrees that this is a sensible principle that the boundary when a coverage period ends is when the entity has the practical ability to reassess the risks and, as a result, can set a new price or level of benefits.</p> <p>In practice, while government has the ability to set a new price or level of benefits on an annual basis in accordance with constitutional and budgetary conventions, as a matter of good policy, we are tending to institutionalise two-to-five-year funding/pricing reassessments because:</p> <ul style="list-style-type: none"> • they provide certainty on levies to the affected constituency; • the consultation process is too costly to do annually; and • a medium-term planned reassessment promotes good stewardship. <p>While the practice of multi-year pricing assessments may be becoming the norm, the practical ability to do an annual assessment remains. However, Treasury can foresee that there may be significant challenge for preparers (and opportunities for protracted disagreement with auditors) in debating and proving whether the practice of multi-year pricing assessments constrains the practical ability to do annual assessments.</p> <p>The Treasury proposes additional guidance on coverage periods, that:</p> <p style="padding-left: 40px;">“The practice of multi-year funding/pricing assessments does not, of itself, constrain the practical ability of a public sector entity to more frequently change prices and benefits of insurance arrangements.”</p> <p>Subsidiary guidance could explain that when there is a legislative constraint on reviewing prices, that will be relevant to determining the coverage period, but in the absence of such constraint, constitutional and budgetary norms would apply.</p>



Respondent	Summary of comments
iCare	<p>Not adequate – the guidance on scope needs to be clearer before we address coverage periods – there remains the potential for public sector schemes having perpetual coverage periods as noted in BC67.</p> <p>The liability for remaining coverage is likely to be materially different between the PAA⁴ and GMM⁵ for long tail schemes that do not issue insurance contracts with explicit contract boundaries. These schemes would not be eligible to adopt the PAA, e.g.:</p> <ul style="list-style-type: none"> Lifetime Care and Support Scheme Motor Accidents Insurance Treatment and Benefits Funds Workers Compensation Dust Diseases Authority <p>Additional run off schemes may also be impacted.</p> <p>The proposals do not address the requirement to calculate the liability for remaining coverage under the GMM for schemes that have coverage periods of greater than 12 months:</p> <ul style="list-style-type: none"> Construction Risk Insurance Fund Home Builders Warranty Insurance Reinsurance arrangements under those schemes. <p>iCare supports public sector insurers applying the PAA in all circumstances without reference to the GMM – this would satisfy the needs of the users without the costs and complexity of implementing the GMM.</p>
HoTARAC	<p>Members support the relief in proposed paragraphs Aus34.1-34.2, but note there are public sector insurance schemes not covered by the proposed relief and that would therefore have to adopt the general measurement model.</p> <p>Some public sector insurance contracts have coverage period of more than a year, after taking proposed paragraphs Aus34.1-34.2 into consideration, and therefore would fail the exemption criteria in AASB17.53(b). As acknowledged by para BC55, to demonstrate an insurance contract meets the other exemption criteria in AASB17.53(a), it would involve creating a system to periodically test for material differences that, of itself, could involve significant costs.</p> <p>Members recommend a blanket exemption for public sector not-for-profit entities, because the cost of maintaining such a system would outweigh the potential value of the information generated and subsequently reflected in the financial statements.</p>
EQC	<p>Agree in principle.</p> <p>EQC’s legislation provides the ability to reset the levy (reprice the risks) at any time for insurance incepted going forward. In practice, when levies change, we give notice periods of year or so as a courtesy to customers and to private</p>

4 Simplified measurement basis – the premium allocation approach [PAA].

5 The general measurement model [GMM] involves projecting fulfilment cash flows and identifying and allocating an up-front profit/loss [contractual service margin or loss component].



Respondent	Summary of comments
	<p>insurance companies who collect levies on our behalf. This could therefore result in debate with the auditor over EQC’s practical ability.</p> <p>We propose additional wording to be included within the guidance about the theoretical ability to fully reprice.</p>
ACAG	<p>Agree – where further guidance is required to determine the coverage period</p> <p>The proposed guidance helps align the public sector’s eligibility for the PAA to any comparable private sector counterparts without public sector specificities.</p> <p>In some cases, insurance entities would not have access to the information required for the general measurement model if the coverage period was assessed to be longer than one year (as their funding arrives through an intermediary and hence information on their 'policyholders' is limited).</p> <p>ACAG agrees with the proposed guidance because:</p> <p style="padding-left: 40px;">Often a public sector entity’s practical ability to fully price for risks or benefits is beyond its control and may require ministerial approval or be set by an independent regulatory agency.</p> <p style="padding-left: 40px;">The guidance provides clarity and certainty on how the monopoly status affects the entity’s practical ability to fully price for risks or benefits thereby reducing inconsistent interpretations.</p> <p style="padding-left: 40px;">While public sector entities may be required to stand-ready to insure future policyholders there could be turnover in the participants/policyholders over successive years and, they generally aim to break even, this requires them to consider the pricing for risks and benefits.</p> <p style="padding-left: 40px;">There are examples of progressively moving premiums towards full break-even rates in a staged approach.</p> <p>Further guidance is required to determine the coverage period for public sector arrangements that do not issue insurance contracts (i.e., where the arrangement is enforceable through legislation or other means) but may fall within the scope of AASB 17. For example, arrangements such as public sector insurance arrangements for serious and substantial injury. These arrangements are funded from annual levies on Compulsory Third Party (CTP) insurance premiums collected by licensed insurers and there is no direct link between the person who pays the premium and the person who receives the benefits.</p> <p>In these circumstances it is not clear in the ED whether the coverage period would be one year as the levies are linked to the annual CTP premiums, or the coverage period is the length of time the injured person is entitled to compensation (which can be many years). Additional guidance may help reduce the possible different interpretations and improve the consistency and comparability of financial statements across like public sector entities.</p>
ACC	<p>Agree – but more guidance is needed – concurs with TSY NZ comments and proposal.</p>
ICWA	<p>Agree – the proposed guidance should remove any ambiguity for public sector entities applying the premium allocation approach methodology (in particular</p>



Respondent	Summary of comments
	associated with contract and coverage periods) that may have arisen from unique public sector specific situations such as Ministerial involvement in premium setting, monopoly situations and obligations to provide various insurance products.
KPMG	<p>Agree</p> <ol style="list-style-type: none">1 taking into account the ability of an entity's controlling entity does not change the substance of the 'practical ability' requirement in AASB 17.34;2 an entity's monopoly position should not affect its practical ability to change a price or level of benefits. An entity's inability to withdraw from its market, or its obligation to continue providing insurance services ends when the entity or its controlling entity has the practical ability to reprice;3 while the decision to stop coverage may be subject to a legislative change , this would not have a bearing on determining the practical ability to fully price for risks or benefits;4 relief from paragraph 34(b)(ii) is relevant to avoid failing the practical ability test and end up having to perform insurance liability valuation over very long contract boundaries.



Proposed additional disclosure of pricing process

Q5: Do you agree with the proposals to:

(a) require disclosure of information about the nature of the pricing process, including:

- (i) the manner in which pricing/benefits are determined;
- (ii) the timeframes for which they are typically determined; and
- (iii) any other relevant constraints under which an entity operates;

when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

(b) permit the disclosure to be located either:

- (i) in the notes to the financial statements; or
- (ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?

Please provide your reasons.

Respondent	Summary of comments
PwC	Agree in principle with disclosing the nature of the pricing processes, including being able to refer to other authoritative sources. The basis of conclusions may need to alleviate concerns and clarify the intention is not to require highly sensitive information where there is public versus private entities competing, but rather to have a better understanding of the entity or industry and how it operates.
TSY NZ	Agree – these disclosures should be helpful to users.
iCare	Disagree – with requiring commercially sensitive disclosures to the accounts of public sector insurers.
HoTARAC	Members believe the proposed disclosure would be of little value to users . Policy restrictions on the pricing process demonstrate that most public sector insurance arrangements do not seek financial profits in their pricing process. Therefore, additional disclosure on the pricing process, is not justified if there is significant extra cost associated with it. Recommends any additional disclosure to be restricted to a statement of the fact that the pricing process is affected by relevant government policies and any other constraints, and a reference to any existing authoritative source that is available to users.
EQC	EQC’s preferred approach fits within these parameters. The methodology to determine levies will be set out in regulations associated with the new Act, and that should be the authoritative source. The calculations underpinning the levy may use different assumptions than those used by the valuation actuaries in determining the outstanding claims liability. We note also that the government will have the prerogative to deliberately set the levy below



Respondent	Summary of comments
	<p>the cost of provision of services to assist the accessibility of insurance for New Zealanders, if it so desires.</p> <p>For simplicity and ease of readability, it would be best to simply refer readers to the Act and any related public reports on the setting of the levy rather than include these details alongside the valuation assumptions.</p>
ACAG	<p>Agree – but limitations should be placed on the disclosure (similar to disclosure exemption in AASB 137 for provisions and contingent liabilities) if this is sensitive information that would affect the public sector entity’s ability to compete in the market if they are not a monopoly provider.</p> <p>Agree permit the disclosure in the notes or by reference to an authoritative source – provides more flexibility for public sector entities and reduces duplication in the financial statements if the information is included in another source.</p> <p>Given the few practical instances where information required by accounting standards is cross-referenced out of the main financial statements, and the lack of experience of these limited situations in the public sector, ACAG suggests the AASB highlights the implications. The implications would be similar to those required for executive remuneration disclosures cross-referenced from the financial statements to the remuneration report. This required that the information cross-referenced would still be audited (to ensure compliance with the accounting standards), with the scope of the audit expanded to include the cross-referenced information, and the need for similar changes to the directors’ declaration / management certificate.</p>
ACC	<p>Agree with the disclosure for publicly available information and ability to cross-reference – suggest additional guidance</p> <p>Currently ACC’s levy setting process is only performed every three years although prices are set for each year as part of this. For instance, in 2021 levies were set for each levy year from 2023-2025. As part of the levy setting process various reports are publicly released which set out the detail of the pricing process. However, like the levy setting process these reports are only produced every three years.</p> <p>Even though our pricing reports would be available prior to the financial statements, and would be applicable for the financial statement year, we are not convinced it would meet the proposal and we suggest (b)(ii) changes to:</p> <p style="padding-left: 40px;">“by reference to an authoritative source that is available to users of the financial statements <u>for the period covered by the financial statements and available earlier or at the same time as the financial statements</u>”</p> <p>Alternatively, additional guidance could note that the reports from a multi-year pricing process are sufficient to cover this disclosure in each relevant year.</p>
ICWA	<p>Yes, agree. This disclosure information may be useful to users and should be already disclosed by public sector entities (whether that be in the financial statements or via other documents) or be readily available.</p>



Respondent	Summary of comments
KPMG	<p>Agree with the disclosure. Do not agree it should be permitted by reference to a source outside the financial statements because:</p> <p>incorporating disclosure already prepared for another authoritative source does not result in undue cost and effort to the preparer and does not enhance comparability between public sector entities for the users of the financial statements</p> <p>referring to an authoritative source outside of the financial statements would create additional work for the user, directors, and auditors – users will have to go to an additional document to understand the pricing, which may not be written in a way the user will understand or how it relates to the entity</p> <p>directors declare that the financial statements provide a true and fair view, with the information included outside of the financial statements, the Directors will have to consider how to make this statement</p> <p>auditors will have to consider the requirements of ASA 720 <i>The Auditor’s Responsibilities Relating to Other Information</i> and determine what additional procedures may have to be performed to support the audit opinion, which increase audit fees</p> <p>we would like to understand the Auditing and Assurance Standards Board’s thoughts on this proposal.</p>



Appendix B: Factors for assessing modifications in the not-for-profit or PBE sector Standards

The below table summarises factors to be considered when assessing the need for a modification of the not-for-profit or PBE sector Standards as set in the Boards' frameworks [XRB Policy Approach to Developing the Suite of PBE Standards \[2020\]](#) and [AASB Not-for-Profit Entity Standard-Setting Framework \[2021\]](#).

Factors	Ref.	Comments
Achieves a material improvement in information available to users	XRB [7, 13, 45]	Applying the Premium Allocation Approach (PAA) in all cases is unlikely to deprive users of useful information
Benefits to users outweigh the costs	XRB [7, 19, 39]	Costs of applying the General Measurement Model (GMM) may outweigh any benefits to users
Local legislation not adequately addressed in the relevant IFRS Standard and diverse practice is likely, warranting specific guidance	AASB [30(a)]	Not relevant in this case
Optional treatment in the relevant IFRS Standard not consistent with local legislation, and is not relevant and appropriate and should be eliminated	AASB [30(b)]	Not relevant in this case
Reporting would inadequately reflect objectives and qualitative characteristics in the Conceptual Framework	AASB [30(c)]	Not relevant in this case
Users require additional disclosures, such as non-financial information	AASB [30(d)]	Not relevant in this case
Issues specific to NFPs are of such prevalence and magnitude that applying IFRS Standards would not reflect economic reality	AASB [30(e)]	Not relevant in this case
Public interest issues relevant to financial reporting require additional disclosures	AASB [30(f)]	Applying the PAA in all cases is unlikely to deprive users of useful information
NFP differences in accountability or regulatory framework, governance or financial management or alignment with other financial frameworks	AASB [30(g)]	Not relevant in this case
An assessment indicates the costs of preparing and disclosing information outweighs the benefits to users	AASB [30(h)]	Costs of applying the GMM may outweigh any benefits to users
IFRS Standards are not compatible with existing NFP-specific Standards or guidance	AASB [30(i)]	Not relevant in this case