Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**n/a**	**Meeting**	May 2023 (M195)
Topic:	**Documents open for comment by other organisations**	**Agenda Item:**	10.1
		Date of the Agenda Paper:	18 April 2023
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		Decision-Making:	Low
		Project Status:	n/a

Objective of this paper

1 The objective of this paper is to

(a) **inform** the Board about consultative documents already issued or to be issued by other international standard-setting bodies; and

(b) ask the Board to **decide** which consultative documents to provide feedback/comments on.

Reasons for bringing this paper to the Board

2 The Board's strategy is to influence the work of the International Accounting Standards Board (IASB), the International Sustainability Standards Board (ISSB), the International Public Sector Accounting Standards Board (IPSASB) and other relevant international organisations with a goal of having the principles in the Standards issued by these organisations aligned, where relevant and possible.

3 Historically, the Board has decided which consultation documents to comment on based on factors such as the relevance and importance of the consultation to the AASB's projects and strategies, the potential impact of the proposals on Australian constituents and the priority of projects as decided by the Board. This agenda paper will assist the Board in deciding which consultation documents it should comment on.

4 Appendix A to this paper provides a summary of documents open for comment that the Board has previously decided whether to provide feedback.

IASB and ISSB documents currently open for comment – decision needed from the Board as to whether to comment or to take other action

Originating organisation	Document	Date of release	AOSSG input	Comments due	Staff recommendation for AASB approach
N/A					

IFRS Interpretations Committee's Tentative Agenda Decisions currently open for comment – decision needed from the Board as to whether to comment or to take other action

Originating organisation	Document	Date of release	AOSSG input	Comments due	Staff recommendation for AASB approach
IFRS IC	Tentative Agenda Decision: Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)	March 2023		22 May 2023	The IFRS IC received requests about how an entity that issues insurance contracts (insurer) applies the requirements in IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments* to premiums receivable from an intermediary. In the fact pattern described, an intermediary acts as a link between an insurer and a policyholder to arrange an insurance contract between them. The policyholder has paid in cash the premiums to the intermediary, but the insurer has not yet received in cash the premiums from the intermediary. The agreement between the insurer and the intermediary allows the intermediary to pay the premiums to the insurer at a later date. When the policyholder paid the premiums to the intermediary, the policyholder discharged its obligation under the insurance contract and the insurer is obliged to provide insurance contract services to the policyholder. If the intermediary fails to pay the premiums to the insurer, the insurer does not have the right to recover the premiums from the policyholder, or to cancel the insurance contract.

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					The requests asked whether the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract and included in the measurement of the group of insurance contracts applying IFRS 17 or are a separate financial asset applying IFRS 9. <u>View 1:</u> The insurer determines that the premiums receivable from the intermediary are future cash flows within the boundary of an insurance contract. Applying View 1, when the policyholder pays the premiums to the intermediary: a. for a group of contracts to which the premium allocation approach does not apply, the insurer continues to treat the premiums receivable from the intermediary as future cash flows within the boundary of an insurance contract and, applying IFRS 17, include them in the measurement of the group of insurance contracts until recovered in cash; and b. for a group of contracts to which the premium allocation approach does apply, the insurer does not increase the liability for remaining coverage—it does so only when it recovers the premiums in cash from the intermediary. <u>View 2</u> Under the second view (View 2), because the payment by the policyholder discharges its obligation under the insurance contract, the insurer considers the right to receive premiums from the policyholder to be settled by the right to receive premiums from the intermediary. The insurer therefore determines that the premiums receivable from the intermediary are not future cash flows within the boundary of an

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					insurance contract but, instead, a separate financial asset. Applying View 2, when the policyholder pays the premiums to the intermediary: a. for a group of contracts to which the premium allocation approach does not apply, the insurer removes the premiums from the measurement of the group of insurance contracts and, applying IFRS 9, recognises a separate financial asset; and b. for a group of contracts to which the premium allocation approach does apply, the insurer increases the liability for remaining coverage and, applying IFRS 9, recognises a separate financial asset. **Cash flows within the boundary of an insurance contract applying IFRS 17** Paragraph 33 of IFRS 17 requires an insurer to include in the measurement of a group of insurance contracts an estimate of all the future cash flows within the boundary of each contract in the group. Paragraph B65 explains that cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including premiums from a policyholder. The IFRS IC observed that paragraph B65 of IFRS 17 does not distinguish between premiums to be collected directly from a policyholder and premiums to be collected through an intermediary. In applying IFRS 17, premiums from a policyholder collected through an intermediary is therefore included in the measurement of a group of insurance contracts. **Removing cash flows from the measurement of a group of insurance contracts** Paragraph 34 of IFRS 17 specifies that 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

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					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. In the fact pattern described in the requests, the insurer has not recovered the premiums in cash. The IFRS IC observed that IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash. Therefore, the IFRS IC observed that, in accounting for premiums receivable from an intermediary when payment by the policyholder discharges the policyholder's obligation under the insurance contract, an insurer can apply either View 1 or View 2. **Information about credit risk** IFRS 17 and IFRS 9 deal differently with the measurement, presentation and disclosure of expected credit losses from an intermediary. The IFRS IC considered that, depending on which view (View 1 or View 2) an insurer applies, it is required to apply all the measurement and disclosure requirements in the applicable IFRS Accounting Standards. The IFRS IC concluded that, because IFRS 17 is silent on when future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts, in the fact pattern described, an insurer could account for premiums paid by a policyholder and receivable from an intermediary applying either IFRS 17 or IFRS 9. The IFRS IC noted that any such project would involve assessing whether changes to the Standards would have unintended

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					consequences and this assessment may take considerable time and effort. Consequently, the IFRS IC concluded that a project would not result in an improvement in financial reporting that would be sufficient to outweigh the costs. The IFRS IC, therefore tentatively decided not to add a standard-setting project to the work plan. **Feedback from the AASB TRG** At its 22 March 2023 meeting, the AASB 17 TRG agreed to respond to the IFRS IC request for comment on the TAD and support the approach being taken. In particular, the TRG supports the IFRS IC approach that effectively permits entities to apply either View 1 or View 2 and not to include this topic on the IASB agenda at this time given that insurers are currently implementing IFRS 17. In general, Australian insurers are planning to apply View 1, while some are planning to apply View 2, as evidenced by the findings in AASB Research Report 18 *AASB 17 Insurance Contracts: Presentation, Disclosure, Transition and Other Accounting Policy Decisions: A Survey on Australian Insurance Entitie*s. The TRG has prepared its comment letter (see Agenda Paper 10.2). **Staff recommendation** Staff recommend that, given the significance of the issue to the Australian industry, the fact that some Australian entities are planning to apply View 1 and others View 2, and the late stage in the process of implementing AASB 17, the Board should endorse the views of its TRG and support the TAD in a comment letter to the IFRS Interpretations Committee.

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					Staff also wish to highlight that it is possible this matter may be reviewed as part of a future post-implementation review of IFRS 17/AASB 17. Q1 Does the Board agree with the staff recommendation, to comment on, and support, the Tentative Agenda Decision *Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9)*?
IFRS IC	Tentative Agenda Decision: Guarantee over a Derivative Contract (IFRS 9)	March 2023		22 May 2023	The IFRS IC received a request about whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative. The request described a guarantee written over a derivative contract between two third parties. Such a guarantee would reimburse the holder of the guarantee for the actual loss incurred—up to the close-out amount—in the event of default by the other party. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative prior to default. Evidence gathered by the IFRS IC concluded that the matters described in the request do not have widespread effect and they do not have (and nor are they expected to have) a material effect on those affected. Consequently, the IFRS IC tentatively decided not to add a standard-setting project to the work plan. **Staff recommendation** Prior to the IFRS IC publishing the tentative agenda decision, AASB staff performed targeted outreach and feedback received noted that this fact pattern is not common in Australia. Staff, therefore, recommend not commenting to the IFRS IC. Q2 Does the Board agree with the staff recommendation, not to comment on the Tentative Agenda Decision *Guarantee over a*

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					Derivative Contract?
IFRS IC	Tentative Agenda Decision: Homes and Home Loans Provided to Employees	March 2023	-	22 May 2023	The IFRS IC received a request about how an entity accounts for employee home ownership plans and employee home loans. Fact pattern 1: employee home ownership plans An entity provides its employee with a house that the entity constructed and owns. In return, the employee has a proportion of their base salary deducted every month until the agreed price of the house has been fully repaid. If the employee leaves employment within the first five years of the arrangement, the employee forfeits their rights to the house and recovers the salary deductions to date. If the employee leaves employment after that five-year period, the employee may choose either: a. to forfeit their rights to the house and recover the salary deductions to date; or b. to keep the house and immediately repay the outstanding balance. Legal title to the house transfers to the employee only when they have paid in full the agreed price for the house. The request asked how the entity should account for this arrangement—in particular, when it should recognise the transfer of the house to the employee, and the accounting before and after the transfer. Fact pattern 2: employee home loans An entity provides its employee with a loan to buy a house, which the employee chooses and purchases and the entity does not own. The

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					entity provides the loan at a below-market rate of interest; the loan is typically interest-free. The employee repays the loan through salary deductions. If the employee leaves employment for any reason at any point, the outstanding balance of the loan becomes repayable. The request asked how the entity should account for this arrangement—in particular, whether the loan is: a. a prepaid employee benefit within the scope of IAS 19 *Employee Benefits*; or b. a financial asset within the scope of IFRS 9 *Financial Instruments*, with the below-market element of the loan accounted for as a prepaid employee benefit by applying IAS 19. Evidence gathered by the IFRS IC concluded that the matters described in the request do not have widespread effect and they do not have (and nor are they expected to have) a material effect on those affected. Consequently, the IFRS IC tentatively decided not to add a standard-setting project to the work plan. **Staff recommendation** Prior to the IFRS IC publishing the tentative agenda decision, AASB staff performed targeted outreach and feedback received noted that this fact pattern is not common in Australia. Staff, therefore, recommend not commenting to the IFRS IC.
					Q3 Does the Board agree with the staff recommendation, not to comment on the Tentative Agenda Decision *Homes and Home Loans Provided to Employees*?

<u>Other relevant</u> documents currently open for comment – decision needed from the Board as to whether to comment or to take other action

Originating organisation	Document	Date of release	Comments due	Staff recommendation for AASB approach
N/A				

Forthcoming documents for comment – decision needed from the Board as to whether to comment or to take other action

Originating organisation	Document	Expected date of release	Expected comment date	Staff recommendation for AASB approach
N/A				

Appendix A
Current and forthcoming documents open for comment – decisions already made by the Board at previous meetings

Originating organisation	Document	Date of release	Comments due	Summary
IPSASB	*ED 84 Concessionary Leases and Right-of-Use Assets In-Kind (Amendments to IPSAS 43 and IPSAS 23)*	January 2023	17 May 2023	At its December 2022 meeting, the Board decided not to comment on this exposure draft. The Board will monitor the IPSASB's project and consider whether not-for-profit entity modifications to AASB 16 are needed and might be proposed in due course.
Global Reporting Initiative: Global Sustainability Standards Board (GSSB)	GRI Sector Standards Project for Mining – Exposure draft	6 Feb 2023	30 April 2023	At its March 2023 meeting, the Board decided to delegate a subcommittee to decide whether to comment on this exposure draft. The subcommittee has decided to prepare a submission letter to the GSSB.
IASB	Exposure Draft ED/2023/3 *Amendments to the Classification and Measurement of Financial Instruments Proposed amendments to IFRS 9 and IFRS 7*	March 2023	19 July 2023	Exposure Draft ED/2023/3 proposes to amend IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* in response to feedback received as part of the Post-implementation Review of IFRS 9—Classification and Measurement. At its March 2023 meeting, the Board decided to collect feedback and prepare a submission letter to the IASB.