TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
26 November 2018
9am-1pm

Objective: The AASB 17 TRG was asked to review the proposed submission to the IASB on the Australian industry response to IASB agenda paper 2D (October meeting) and provide their comments. TRG members also discussed the Treasury Consultation Paper on the *Taxation of insurance companies* and the APRA Roadmap for Integration of AASB 17 letters.

ATTENDANCE	ORGANISATION
Anne Driver (Chair)	QBE
Stuart Alexander	Deloitte
James Barden (via teleconference)	AASB staff
Stephen Burton (via teleconference)	Suncorp
Carol Cao (via teleconference)	Swiss Re
Brendan Counsell	EY
Regina Fikkers	PwC/AASB
Peter Grant (via teleconference)	Insurance Australia Group (IAG)
Scott Hadfield	PwC/AALC
Charles Hett (via teleconference)	NZASB
Lydia Jost (observer)	Hannover Re
Martin Lam (observer)	Hannover Re
Weldon Luo	ATO
Chris Maher	AMP
Peter Mallyon (guest)	Treasury
Ian Moyser	KPMG
Brett Pickett (on behalf of Rob Sharma)	APRA
Rachel Poo	QBE/Deloitte
Grant Robinson	AMP/ Institute of Actuaries IFRS 17 Implementation Task Force
Paul Ruiz	Non-executive director
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Lucas Rutherford (guest)	Treasury
Ayman Sobhan (via teleconference)	Insurance Council of Australia
Michael Sokulski (via teleconference)	Medibank

ATTENDANCE	ORGANISATION
Tony Tong (via teleconference)	Pacific Life Re
Jeroen van Koert	AIA

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Topic	Agenda paper
Update on IASB decisions re effective date	

- A member provided an update on the recent developments since the last AASB TRG meeting:

  Deferral of mandatory effective date

  - The IASB Board tentatively decided at its meeting on 14 November 2018 that the mandatory effective date of IFRS 17 should be deferred by one year and that the temporary exemption in IFRS 4 from applying IFRS 9 should also be extended by one year to 1 January 2022.
  - The Insurance Council of Australia (ICA) was one of the signatories to a joint letter sent to the IASB requesting for a delay of two years. However, it was noted in the discussions at the IASB November Board meeting that there were other stakeholders, including many users of financials statements, who had requested for a one year or no delay in the effective date.
  - The member also considered that one of the contributing factors for limiting the delay to one year may have been a preference to not defer the application of IFRS 9 which was expressed by many of the IASB Board members.

  Potential amendments to IFRS 17 in response to stakeholder concerns and implementation challenges

  - At the IASB October Board meeting, the IASB staff set out 25 areas of concern that had been raised by stakeholders and recommended a set of criteria that should be used to evaluate potential amendments to IFRS 17. The IASB staff also stated their preliminary view that 7 (including delay in the effective date) of the 25 areas potentially met the criteria for change.
  - The IASB Board agreed with the criteria for evaluating potential changes, namely that:
    1) amendments would not result in significant loss of useful information relative to that which would be provided by IFRS 17 for users of financial statements; and
    2) amendments would not unduly disrupt implementation processes that are already under way or risk undue delays in the effective date.
  - No decisions were made in the October Board meeting on whether to make amendments but the IASB will discuss all 25 issues raised at its future meetings[1].
  - A working group of the AASB TRG have drafted a submission to the IASB setting out the Australian response on the issues raised in AP2D of the IASB October Board papers. The submission and feedback on its content is discussed in the next section (see below).
  - The IASB expect to start discussing the issues raised in its December meeting.

[1] Note: Two of the issues (on deferral of effective date of IFRS 17 and the equivalent extension of the temporary exemption of IFRS 9) were discussed and voted on by the IASB Board in their November meeting.

Australian Industry response to IASB paper 2D (October meeting)	AP02, AP03

- Members discussed the cover letter (AP02) which will be submitted by the AASB TRG. The letter is addressed to IASB technical staff, Andrea Pryde, copying three Board members (Sue Lloyd, Ann Tarca and Darrel Scott).
- A member expressed the view that the IASB were welcoming proposals on how the issues can be addressed.
- One member considered whether the letter can be extended to include New Zealand as a signatory. However, the member considered that it would be more appropriate for the letter to be sent from Australia only as New Zealand does not have an equivalent of the AASB TRG to represent the broad New Zealand industry view. Another member noted that the letter will be publicly available on the AASB TRG website. New Zealand could, therefore, adapt the letter to reflect the New Zealand position and obtain endorsement from the appropriate New Zealand industry representatives for submission to the IASB.
- Members were asked to provide feedback on the draft responses on each of the topics raised in AP2D of the IASB October Board papers (AP03). A member of the working group introduced the paper:
    - The paper attempts to emphasise the two top issues for the Australian industry which are the treatment of reinsurance held on initial recognition when they cover onerous underlying contracts; and the separate presentation of groups of assets and groups of liabilities in the statement of financial position.
    - The paper also recommends changes on other topics (outside of the top two issues) where the Australian view on these areas have previously been discussed with the IASB or where the issue has arisen since the issue of IFRS 17 as a result of IASB interpretations.
    - The paper also states where topics are not expected to have a significant impact in Australia.
- Members discussed the best way to present the summary table in order to best highlight those areas where the AASB TRG agreed with the IASB staff that a change to IFRS 17 was needed vs those areas where the AASB TRG felt strongly that no change should be made. It was agreed the working group would take the comments on board and incorporate changes.
- A member referred to the second criteria set out by the IASB for evaluating potential amendments (that amendments should not unduly disrupt implementation processes that are already under way) and questioned the extent to which it is considered in the responses, specifically, the member questioned the extent to which Australian entities are progressed in their implementation processes such that amendments would be disruptive to those entities. Another member commented that some entities in Europe are likely to be further progressed in their implementation programmes compared to many Australian entities. However, the member also noted that most implementation plans will include some flexibility for potential changes – e.g. by delaying the build of the solutions that relate to areas of IFRS 17 that are expected to be subject to change.
- Members discussed the responses to each topic as follows:

Topic 1: Scope of IFRS 17 | Loans and other forms of credit that transfer insurance risk

- One member expressed the view that it would be inconsistent to exclude specific financial instruments (i.e. contracts that have as their primary purpose the provision of loans or other forms of credit) from the scope of IFRS 17 but to require the inclusion of other types of financial instruments (investment contracts) which have a relatively small investment component. The member stated that during the Exposure Draft (ED) phase of the Standard, Australian stakeholders had expressed the view that those types of contracts should be descoped. Another member observed that there are other instances where specific carve-outs are made in IFRS 17.

- Members agreed that the response should note a preference for a principles-based approach to also exclude investment contracts which have a relatively small insurance component, but that Australia would also support a pragmatic approach to specifically exclude contracts that have as their primary purpose the provision of loans or other forms of credit.

Topic 2: Level of aggregation of insurance contracts

- One member expressed the view that although the ‘group’ is an acceptable approach for the identification of onerous contracts, there is a preference for a higher level of aggregation than the ‘group’ as the unit of account.
- Another member considered that the Australian position should not be seen to support the position taken by some overseas forums which appear to advocate for a higher level of aggregation such as a portfolio in order to be able to offset gains and losses. A member responded that the paper supports the use of ‘groups’ for the purposes of identifying and measuring onerous contracts which would address concerns around inappropriate offsetting gains and losses.
- Members agreed that no changes were required to the draft response on this topic.

Topic 3: Measurement | Acquisition cash flows for renewals outside the contract boundary

- One member commented that the debate around the application of contract boundary to Yearly Renewable Term (YRT) contracts seemed to be driven by the issue around the ability to defer acquisition costs beyond the renewal date. Another member responded with the view that the amendment being considered by the IASB staff in AP2D of the IASB October Board papers would resolve the issue.
- One member asked if many entities would strongly support an amendment to require the deferral of acquisition cash flows. Another member stated that the amendment discussed in the IASB October paper AP2D refers to requiring or allowing the deferral of acquisition costs. A member considered that optionality will allow entities to reflect the treatment that is appropriate to their business model.
- A member considered that the amendment being considered by the IASB staff will help to address one of the key issues for Life insurers. The member therefore expressed strong support for change.
- All except one member agreed that the Australian response should support the amendment being considered by the IASB staff. The dissenting member questioned why insurers supporting the amendment would not choose to apply a longer boundary under the general model and pointed out that the application of the simplified approach is optional. Other members clarified that the determination of the contract boundary is separate from the choice of measurement model[2].
- Members agreed that application of the proposed amendment should be an option and not a requirement.

Topic 4: Measurement | Use of locked-in discount rates to adjust the contractual service margin

[2] The choice of measurement model is impacted by the contract boundary only in the context of determining the eligibility to apply the simplified approach (PAA) – where the coverage period is longer than a year, the group of contracts will need to be tested for eligibility as it will not be automatically eligible; and the likelihood of meeting the PAA eligibility criteria reduces as the length of the coverage period of the group of contracts increases.

- Members agreed with the draft response on this topic.

Topic 5: Measurement | Subjectivity | Discount rates and risk adjustment

- Members agreed with the draft response on this topic.

Topic 6: Measurement | Risk adjustment in a group of entities

- One member asked if supporting no change in the Standard will allow for both interpretations[3] to be applied in light of the IASB staff view expressed in the IASB May 2018 TRG ('View 1'). A member responded with the view that supporting no change is unlikely to close down a single interpretation as the IASB staff have recognised that there are different views around the determination of the risk adjustment at the level of the Group of entities. Some members considered that the IASB staff view does not constitute accounting guidance and is not required to be applied. However, some members acknowledged that there is a risk that supporting no change in order to allow application of the alternative view ('View 2') may result in the IASB taking action to introduce clarification or amendment to require the application of a single view/interpretation.
- Another member expressed the view that the two interpretations are not mutually exclusive as View 2 allows View 1 to be adopted as it allows the diversification benefits to be reflected in the individual entity risk adjustment.
- A member commented that the IASB staff appeared to see View 1 as promoting comparability between entities, however, View 2 would allow comparability at a different level, being the level of the consolidated Group of entities.
- Members agreed that the response should highlight that View 2 is a more pragmatic approach and will allow consolidated Groups to articulate their view of risk in a way that makes them comparable with their peers. Members also agreed that a reference should be included to the paper that had been submitted to the IASB September 2018 TRG (S81 of AP11).

Topic 7: Measurement | Contractual service margin: coverage units in the general model

- Members agreed with the draft response on this topic.

Topic 8: Measurement | Contractual service margin: limited applicability of risk mitigation exception

- Members agreed with the draft response on this topic.

Topic 9: Measurement | Premium allocation approach: premiums received

- Members agreed with the draft response on this topic.

Topic 10: Measurement | Business combinations: classification of contracts

- Members agreed with the draft response on this topic.

Topic 11: Measurement | Business combinations: contracts acquired during the settlement period

- One member questioned whether the application of the principles in AP1 of the IASB September 2018 TRG will resolve the issue.

[3] The IASB staff view ('View 1') considers that the diversification benefits can be reflected in the individual entity risk adjustment, but the consolidated Group risk adjustment should be the additive factor of the individual subsidiary risk adjustments. The alternative view supported by the Australian industry ('View 2') allows diversification benefits to be reflected in the consolidated Group risk adjustment, even if diversification benefits are not reflected in the individual subsidiary risk adjustments.

- A member considered that the IFRS 17 requirements around the measurement of acquired claims liabilities will result in practical implementation issues which will emerge as more entities progress through implementation.
- Members agreed that a minor amendment should be made to the response to add that the appropriate treatment should be based on the business model of the acquiring entity.

Topic 12: Measurement | Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous

- One member noted that the response proposes specific wording changes to IFRS 17, and suggested that the response should highlight the principle of the proposed change as opposed to the specific wording to be used. A member responded that a more detailed paper had previously been issued to the IASB on this topic and sets out the principles and reasons for change. The member explained that there are different views about potential solutions to resolve the issue – for example, the CFO forum in Europe had proposed a solution that is different to the one proposed by Australia. Members agreed with the Australian solution proposed in the response and that the response should acknowledge that an alternative wording may also achieve the same principle.

Topic 13: Measurement | Reinsurance contracts held: ineligibility for the variable fee approach

- Members agreed with the draft response on this topic.

Topic 14: Measurement | Reinsurance contract held: expected cash flows arising from underlying insurance contracts not yet issued

- A member noted that the IASB February 2018 TRG discussions on contract boundary for reinsurance held has implications for subsequent measurement which had not previously been apparent. Accounting timing mismatches arise where the boundary of the reinsurance contract(s) held is longer than the boundary of the underlying contracts they cover. The member considered that the issue will impact both life and general insurers.
- A member suggested that the response should state that the accounting mismatch issue is similar to one raised in Topic 12 but occurs on subsequent measurement as opposed to initial recognition.

Topic 15: Presentation in the statement of financial position | Separate presentation of groups of assets and groups of liabilities

- A member stated that IFRS 15 allows application of its requirements at a 'portfolio' level when estimating trail commissions in banking. Another member suggested that it would be useful to include the point in the response.
- A member commented that the IASB staff considered it inappropriate to net groups of assets and liabilities, but the current IFRS 17 measurement requirements is a net of the right to receive premiums against the obligation to provide coverage.
- Members agreed with the draft response on this topic.

Topic 16: Presentation in the statement of financial position | Premiums receivable

- Members agreed with the draft response on this topic.

Topic 17: Presentation in the statement of financial position | OCI option for insurance finance income or expenses

- Members agreed with the draft response on this topic.

Topic 18: Defined terms | Insurance contract with direct participation features

- Members agreed with the draft response on this topic.

Topic 19: Interim financial statements | Treatment of accounting estimates

- A member of the working group explained that the response agrees with the IASB staff's view in relation to the issue being discussed in IASB October Board paper AP2D – i.e. that the IAS 34 override in IFRS 17 should not be extended to types of reporting that are not 'general purpose'[4]. However, the response also does not support the IAS 34 override. The member considered that the clarification from the September 2018 IASB TRG results in the CSM amounts and potentially other items such as discount and risk adjustment being fixed at each interim reporting date. A practical implication of the override is therefore that preparers might have to create 6 monthly cohorts (if reporting on a half yearly basis). This might creates an internal inconsistency in IFRS 17 which should be brought to the attention of the IASB. Members agreed that the response should include this point.
- A member considered that another implication of the override is a potential inconsistency between subsidiary and Group level application where the frequency of reporting is not aligned.
- Members agreed with the draft response on this topic.

Topic 20: Effective date | Date of initial application of IFRS 17

- No discussion on this topic as a tentative decision was made in the November Board meeting to defer the mandatory effective date of IFRS 17 by one year.

Topic 21: Effective date | Comparative information

- Members agreed with the draft response on this topic.

Topic 22: Effective date | Temporary exemption from applying IFRS 9

- No discussion on this topic as a tentative decision was made in the November Board meeting to extend the temporary exemption by one year.

Topic 23: Transition | Optionality

- One member questioned which alternative transition approach would be removed if the IASB decided to amend for the issue raised. Another member responded that this was not specified. The member considered that the Australian general insurance industry is likely to be able to apply the full retrospective approach but would support the optionality to apply either of the alternative transition approaches where the full retrospective approach is impracticable.
- Members agreed with the draft response on this topic.

Topic 24: Transition | Modified retrospective approach: further modifications

- One member asked what additional modifications the Australian industry would support. Members agreed that although no specific additional modifications had been identified for inclusion in the Australian industry, the response should support any additional modifications that could make the approach more practical to apply as it is expected that areas where further modifications would be helpful are likely to emerge as implementation projects progress.

Topic 25: Transition | Fair value approach: OCI on related financial assets

- Members agreed with the draft response on this topic.

General

[4] As identified in the *Conceptual Framework for Financial Reporting*

- The working group agreed to update the draft submission for the feedback received. The final paper will be circulated to AASB TRG members and uploaded to the AASB TRG website once submitted.	
Accounting Standards Advisory Forum (ASAF) request for feedback	**AP04**
- A Staff member of the AASB introduced the session. The Accounting Standards Advisory Forum (ASAF) is a group of National Standard setters that meet four times a year with the IASB in London. The ASAF is an advisory panel to the IASB for some of the projects. The IASB have requested for suggestions from ASAF on how the 6 topics that the IASB staff considered met the criteria for potential amendments could be addressed. - It was agreed that the content of the response letter that was discussed (AP03) was helpful feedback and included proposed solutions to the issues that impact the Australian industry. One member considered that it was important to highlight the two top priority issues for Australia.	
Treasury Consultation Paper *Taxation of insurance companies*	**AP05**
- Guest presenters from Treasury provided an update on the consultation paper that was released on 5 November 2018 on the Taxation of insurance companies, including a section related to the implications of IFRS 17: • Treasury are hosting a roundtable at the Treasury office in Sydney on 27 November 2018 to discuss this topic. • A key purpose of this stage of the consultation process is to understand the implications of IFRS 17 on profits, transition and tax forward estimates. • Outcomes of the consultation process will be published on the Treasury website unless there are items that have been specifically requested to be kept confidential. - Members discussed the possible implications of IFRS 17 on profits and asked questions about the consultation process.	
APRA Roadmap for Integration of AASB 17 letters (Health and Life + General)	**AP07, AP08**
- A member from APRA provided an update on the “APRA Roadmap for Integration of AASB 17” letters released on 16 November 2018 which set out the proposed timeframes for integrating IFRS 17 into the Life and General Insurance Capital (LAGIC) framework: • APRA’s framework is to align capital treatment with accounting standards, unless departure is justified on prudential grounds. • The letters were released prior to the tentative decision by the IASB to defer the effective date of IFRS 17 by one year. Consequently, the timeframe set out in the APRA letters may be amended once the final IFRS 17 deferral period is confirmed. • APRA is interested in understanding how entities have progressed with their IFRS 17 implementation programmes over the last year in order to have an indication of the potential level of relief that will be provided by the deferral of IFRS 17. - Members suggested that it would be helpful for APRA to provide early notification of APRA’s position on areas where there is low uncertainty or where there is low risk of change. In particular, it was noted that it would be helpful for APRA to determine their approach to judgemental areas such as risk adjustment and PoA, Discount rates, Acquisition costs etc.	
Any other business	

- Members were notified of the letter sent by the European Federation of Financial Analysts Societies (EFFAS) to EFRAG and the IASB on 17 September 2018 to support the prompt issue and endorsement of IFRS 17. - The next AASB TRG meeting will be held in March to review the papers that will be discussed at the next IASB TRG which will be held on 4 April 2018.
End Meeting