

Staff paper

Project	Insurance contracts	Meeting	AASB (M179)/ NZASB February 2021
Topic	Joint AASB-NZASB project objectives and next steps	Agenda item	AASB 3.2 NZASB 4.2
		Date	29 January 2021
Contacts	Angus Thomson athomson@asb.gov.au Vanessa Sealy-Fisher vanessa.sealy-fisher@xrb.govt.nz Patricia Au pau@asb.gov.au	Project priority	Medium
		Decision-making	High
		Project status	Stakeholder outreach and Identifying specific technical issues for board deliberation

Objectives of this paper

1. The objectives of this staff paper are for the AASB and the NZASB to:
 - (a) confirm the objectives of this joint AASB-NZASB project;
 - (b) note an update from staff on outreach undertaken in 2020;
 - (c) consider an indicative project timeline; and
 - (d) consider staff recommendations on a Project Advisory Panel and Board member advisers for the project.

Structure of this paper

2. This paper is structured as follows:
 - (a) Section 1: The objective(s) of the joint project
 - (b) Section 2: Outreach activities in 2020
 - (c) Section 3: Indicative timeline of the joint project
 - (d) Section 4: Project Advisory Panel and Board member advisers for the project
 - (e) [Appendix A](#): Stakeholders consulted in 2020 (for noting)
 - (f) [Appendix B](#): Current members of the AASB 17 Transition Resource Group (for information only)

Section 1: Objective(s) of the project

3. At the centre of the project are the policies of the two boards on using IFRS Standards and IPSAS in setting Standards applicable to not-for-profit and public sector entities.

Tiers of reporting

4. Both Boards use the 'public accountability' distinction developed by the IASB. This identifies entities that *hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, including insurance providers, as having public accountability.*



5. Accordingly, both Boards generally regard entities engaged in insurance activities as being in Tier 1.

Use of IFRS Standards – Australia

6. Some of the public sector entities in Australia that conduct insurance activities have self-identified as for-profit entities – others have self-identified as not-for-profit entities.
7. In principle, Tier 1 for-profit public sector entities apply AASB Standards incorporating IFRS Standards without modification.
8. The [AASB Not-for-Profit Entity Standard-Setting Framework](#) notes the Financial Reporting Council's broad strategic direction that the AASB applies the principle of transaction neutrality (modified as necessary) in setting standards for not-for-profit and public sector entities. This Framework notes (emphasis added):

- 22 IFRS Standards (including Interpretations) are appropriate as a base for the following reasons: ...
- (d) **IFRS Standards can be modified appropriately for NFP-specific issues**, as demonstrated by the International Public Sector Accounting Standards Board (IPSASB) using IFRS Standards as a base for their corresponding Standards, **departing only to the extent appropriate for public sector issues**.

Use of IFRS Standards/IPSAS – New Zealand

9. The [New Zealand Accounting Standards Framework](#) notes:
28. The accounting standards applying to the PBE tiers are as follows: ...
- PBE Tier 1: Tier 1 PBE Accounting Requirements – These are the requirements in the accounting standards (referred to as PBE Standards) and applicable authoritative notices.
They comprise International Public Sector Accounting Standards (IPSAS), modified as appropriate for New Zealand circumstances (for either public sector or NFP entities), together with additional standards as necessary and applicable authoritative notices.

Additional standards for PBEs include IFRS Standards for which there is no equivalent IPSAS (for example, PBE IFRS 4) and domestic standards.

10. In February 2018, the NZASB considered the application of the *Policy Approach to Developing the Suite of PBE Standards* (PBE Policy Approach) and decided to develop PBE IFRS 17. The trigger in the PBE Policy Approach for developing PBE IFRS 17 is the change to an IFRS Standard (IFRS 4 is superseded by IFRS 17) that has been used as the basis for a PBE Standard.

Consistency in financial reporting – within and between jurisdictions

11. The AASB's November 2017 DP identified as an objective "to achieve greater consistency of financial reporting across the public sector among entities engaging in insurance activities for the benefit of users of that information" [page 6]. This is in light of the fact that some Australian public sector entities conducting insurance and insurance-like activities are currently applying AASB 1023 *General Insurance Contracts* and others are applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.
12. Given the fewer number of entities with insurance and insurance-like activities in New Zealand, and the current consistency in their reporting, this objective is presumably of less significance for the NZASB.
13. Although there is no binding agreement in place regarding public sector entities, staff are of the view that, to the extent feasible, it would be desirable to have the same standards applying in Australia and



New Zealand. For example, to some extent, there can be useful benchmarking of financial position and performance of public sector entities between the two jurisdictions.

14. Accordingly, staff are taking a ‘best endeavours’ approach to trying to achieve a consistent outcome in the two jurisdictions.

Question to Board members

Q4: Do Board members agree that the objective of the joint project is to achieve, as much as possible, a consistent accounting outcome in the public sector in Australia and New Zealand to achieve greater consistency of financial reporting among entities engaging in insurance activities?

Section 2: Outreach activities in 2020

15. Staff have reviewed publicly-available information on public sector entities that conduct insurance or ‘insurance-like’ activities and interviewed key stakeholders. [Appendix A](#) contains a listing of entities consulted by staff in quarter four of 2020 for the Boards’ information.
16. Staff noted the feedback received by each Board from consultative documents issued in 2017 (AASB DP) and 2018 (NZASB ED). The current outreach builds on that early feedback and is benefitting from a greater level of awareness among stakeholders of the potential impacts of applying AASB 17/PBE IFRS 17 and knowledge of the 2020 amendments to those standards.
17. The information sought includes:
- (a) the nature of the activities and arrangements, including whether they involve ‘contracts’ and/or providing ‘coverage’;
 - (b) identifying the users of information prepared by the relevant entities;
 - (c) the nature of the risks and the length of coverage periods;
 - (d) levels of aggregation of information;
 - (e) objectives of pricing and setting of levies and the extent to which beneficiaries pay premiums or levies;
 - (f) the nature of claims and claim handling;
 - (g) attitudes to risk adjustments;
 - (h) the nature of any reinsurance arrangements; and
 - (i) in the case of reporting entities, the standards currently applied and why.
18. There a number of other stakeholders who staff are still planning to interview. This includes stakeholders from jurisdictions we are yet to cover (Western Australia), some local government entities in Australia and New Zealand, and stakeholders that are closer to the ‘social benefit’ end of the spectrum. Staff plan to contact the interviewed stakeholders as an ongoing resource for the project, as needed.

Questions to Board members

- Q5: Are there any other matters on which staff should be consulting with stakeholders?
- Q6: Are there any other stakeholders staff should consult with?



Section 3: Indicative timeline of the joint project

19. AASB 17/PBE IFRS 17 mandatorily applies to annual reporting periods beginning on or after 1 January 2023. If that applied in the public sector in Australia and New Zealand, the first-affected annual reporting periods would be those ending on 30 June 2024, with comparative information for the year ending 30 June 2023.
20. Scenario 1: If the Boards agree on the scope of application to public sector entities, and possibly agree on minor amendments or guidance, it may be feasible to finalise the project by October 2021. In this scenario, the 2023 application date could also be used for public sector entities as it would still provide a clear two-year implementation period.¹
21. Scenario 2: If there remain substantive issues on which further consultation is needed, the project would likely extend into the second quarter of 2022 and a later application date may be used for public sector entities. If this proves to be the case it would most likely be due to:
 - (a) the need for substantive guidance or amendments to the standards for public sector application; and/or
 - (b) the need to address conflicting valid views on the application of the standards or particular requirements within them.

Under Scenario 2, there should still be a sufficient implementation period for the affected entities to apply AASB 17/PBE IFRS 17 by the 2023 application date. If the project timetable went beyond a completion date of June 2022, there would be a need for each Board to consider a later application date, which may require an interim change to the existing scope paragraphs of AASB 17/PBE IFRS 17.

22. These two possible scenarios are illustrated below.

<i>Scenario 1</i>		<i>Scenario 2</i>	
Feb 21	Project update and preliminary decision-making	Feb 21	Project update and preliminary decision-making
Feb-Mar-Apr 21	Further staff outreach Preparation of technical board papers	Feb-Mar-Apr 21	Further staff outreach Preparation of technical board papers
Apr 21	Boards consider technical papers Boards identify the need for only limited adjustments to the standards to effectively apply in the public sector	Apr 21	Boards consider technical papers Boards identify the need for substantive adjustments to the standards to effectively apply in the public sector or substantive conflicting valid views among key stakeholders
May 21	Develop the necessary limited adjustments (which, at a minimum, will likely involve a targeted due	May 21	Staff develop technical papers on substantive amendments

1 The [AASB Due Process Framework for Setting Standards \(September 2019\)](#) notes (emphasis added):

7.9.2 When determining the effective date of Standards, the AASB seeks to ensure that stakeholders have adequate time to prepare for their implementation. Typically, **the AASB will issue a Standard with at least 2 years before its effective date (eg a year before the beginning of the comparative reporting period)** and generally permits entities to apply those requirements early should they wish to do so.

The NZASB policy is to set mandatory application dates for Standards at the meeting when approval is sought, with the NZASB weighing up matters such as the relative complexity of the requirements and the number of affected entities.



Scenario 1		Scenario 2	
	process document to be discussed with relevant stakeholders)		
Jun 21	Boards consider any issues arising from targeted consultation and any 'sweep issues'	Jun 21	Boards consider technical papers on substantive amendments and agree on proposals
Sep 21	Boards agree on limited adjustments	Sep 21	Boards agree on consultative document
Oct 21	Issue revised standards	Oct 21	Issue consultation documents
		Feb 22	Consider feedback from consultation and proposals for addressing issues raised
		Apr 22	Address any sweep issues and agree on revised standards
		May 22	Issue revised standards

Question to Board members

Q7: Do Board members have any comments or concerns about the above indicative timeline(s)?

Section 4: Project Advisory Panel and Board member advisers for the project

23. Staff recommend that, rather than constituting a new Project Advisory Panel for this project, we use relevant members of the existing AASB 17 Transition Resource Group, supplemented where necessary by additional members from Australia and New Zealand.
24. [Appendix B](#) contains a listing of the current members on the AASB 17 Transition Resource Group for Board members' reference. Staff have identified the following members as those known to have public sector experience:

Name	Organisation
David Daniels	NSW Audit Office
Fehraz Fallil	iCare NSW
Karen Foo	Victorian Department of Treasury and Finance
Frank Saliba	ATO
Rob Sharma	APRA
Warwick Spargo	RSM

25. Staff also recommend that one or two members from each Board be identified as key contacts for staff to consult in between Board meetings, for the following reasons:
- (a) the plan is to have made sufficient progress by March/April 2021 to know whether or not a further consultation document is needed and the nature and extent of any such document; and
 - (b) the next AASB and NZASB meetings for which the project can be scheduled are in April 2021.



Question for Board members

Q8: Do Board members support the staff recommendations about:

- (a) using the existing TRG plus additional Board members as needed for a Project Advisory Panel;
and
- (b) identifying one or two members from each Board as key contacts for staff to consult?



Appendix A: Stakeholders consulted in 2020

Both the AASB and the NZASB have instructed staff to further outreach to stakeholders. To-date, stakeholders from the following entities have been consulted by staff.

<i>Entity</i>
Accident Compensation Commission NZ
Earthquake Commission NZ
The Treasury NZ
Office of the Auditor-General NZ
Department of Finance Australia
Australian National Audit Office
iCare NSW (administers a number of insurance-like schemes)
NSW Treasury
NSW Audit Office
Victorian Managed Insurance Authority
Transport Accident Commission VIC
Victorian Auditor-General's Office
WorkSafe Queensland
Queensland Treasury
Queensland Audit Office
South Australia Treasury
Auditor-General's Department SA
ACT Audit Office
Motor Accident Compensation Commission NT
AASB 17 TRG members with experience in Victorian and Tasmanian schemes



Appendix B: Current members of the AASB 17 Transition Resource Group

As at January 2021, the AASB 17 Transition Resource Group has the following members.

Name	Organisation
Anne Driver (Chair)	Deloitte
Stuart Alexander	Deloitte
Prof. Jac Birt	University of Western Australia
Anthony Coleman	Lonergan Edwards
Cassandra Cope	HCF
Brendan Counsell	EY
David Daniels	NSW Audit Office
Jennifer Dwyer	Medibank
Emily Evitts	Allianz
Fehraz Fallil	iCare NSW
Karen Foo	Victorian Department of Treasury and Finance
Regina Fikkers	PwC
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC
Jeroen Van Koert	AIA
Chris Maher	Resolution Life
Louise Miller	Suncorp
Aiden Nguyen	Financial Services Council
Brett Pickett	TAL/Chair of Institute of Actuaries IFRS 17 Implementation Task Force
Grant Robinson	Resolution Life/Institute of Actuaries IFRS 17 Implementation Task Force
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Frank Saliba	ATO
Rob Sharma	APRA
Victoria Smith	QBE
Warwick Spargo	RSM
Paul Stacey	Insurance Council of Australia
Leong Tan	Swiss Re
Ciara Wasley	NIB
Leann Yuen	KPMG / Co-Chair of the Accounting & Actuaries Liaison Committee