QBE Insurance Group

QBE INSURANCE GROUP LIMITED
ABN 28 008 485 014

Head Office
Level 27, 8 Chifley Square
Sydney NSW 2000
AUSTRALIA

Postal Address
GPO Box 82
Sydney NSW 2001
AUSTRALIA

Telephone: +61 (2) 9375 4444
Facsimile: +61 (2) 9235 3166
DX 10171 Sydney Stock Exchange

28 August 2020

Dr Keith Kendall
Chair
Australian Accounting Standards Board
Podium Level 14, 530 Collins Street
Melbourne VIC 3000

Dear Sir

Re: ED 298 (incorporating ED/2019/7 *General Presentation and Disclosures*)

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in 29 countries and territories. We are also one of the top 20 global insurers and reinsurers as measured by net earned premium.

QBE welcomes the opportunity to comment on ED 298 and is generally supportive of the proposals in ED/2019/7. The QBE comment letter to the IASB on ED/2019/7 is attached.

In terms of the matters on which the AASB would particularly value comments, we note the following.

1. We are not aware of any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals in respect of for-profit private sector insurers. We have no comment on the impact in respect of not-for-profit entities or public sector entities.
2. We are not aware of any significant inconsistencies between the proposals and the requirements of ASIC RG 230 *Disclosing non-IFRS financial information*. However, we consider that, once the requirements regarding management performance measures are finalised, the AASB should consult with ASIC on whether RG 230 needs to be revised.
3. Our comments to the IASB identify proposals we consider to be improvements that should be beneficial to users and some proposed changes that we consider would be of no benefit.
4. Maintaining IFRS-compliance is in the best interests of the Australian economy and, any eventual requirements arising from the proposals should be implemented in Australia.
5. We have no comment on auditing issues in respect of the proposals.
6. We have no specific cost-benefit estimates for the proposals. However, we note that insurers must present expenses on a functional basis in the profit or loss under IFRS 17 *Insurance Contracts*, and the proposals would mandate an analysis by nature in the notes. QBE considers that IFRS 17 has effectively deemed the functional basis to be the most relevant for users of insurers' financial statements and that further disclosure in the notes is not cost-beneficial.

If you wish to discuss and further clarify the points raised in this submission, please contact Joan Cleary at joan.cleary@qbe.com.

Yours sincerely

Inder Singh
Chief Financial Officer

* Comments to IASB attached

QBE INSURANCE GROUP LIMITED
ABN 28 008 485 014

Head Office
82 Pitt Street
Sydney NSW 2000
AUSTRALIA

Postal Address
GPO Box 82
Sydney NSW 2001
AUSTRALIA

Telephone: +61 (2) 9375 4444
Facsimile: +61 (2) 9235 3166
DX 10171 Sydney Stock Exchange

28 August 2020

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sir

Re: ED/2019/7 *General Presentation and Disclosures*

QBE Insurance Group Limited (QBE) is an Australian-based public company listed on the Australian Securities Exchange. QBE is Australia's largest international insurance and reinsurance company with operations in 29 countries and territories. We are also one of the top 20 global insurers and reinsurers as measured by net earned premium.

QBE welcomes the opportunity to comment on ED/2019/7 and is generally supportive of the proposals.

The following summarises QBE's three main concerns.

1. **Management performance measures:** QBE appreciates the IASB's motivations for greater transparency in the **audited financial statements** about management performance measures, including a reconciliation of those measures to the most directly comparable subtotal or total specified by IFRS Standards.

   However, QBE considers there is a lack of clarity around crucial aspects of the practical application of the proposals highlighted in the following questions.

   - Is a measure such as Gross Written Premium, which only relates to 'income' and is not used as a measure of revenue under IFRS 17 *Insurance Contracts*, regarded as a 'subtotal of income or expenses' and, therefore, a management performance measure?
   - Are management performance measures that are not already communicated publicly by the time of completion of financial statements, but which an entity plans to communicate in a subsequent investor presentation, regarded as 'public communications' for the current reporting period?
   - Are management performance measures relating to the immediate past reporting period, that were not necessarily contemplated at the time the financial statements were completed, to be the subject of disclosures in the financial statements for the following period?
   - How would the disclosures apply if the period relating to the data used for management performance measures does not coincide with the financial reporting period?

2. **Disaggregation in the primary financial statements:** ED/2019/7 paragraph 65(c) requires disclosure of profit or loss line items for:

   (i) insurance revenue;

   (ii) insurance service expenses from contracts issued within the scope of IFRS 17;

(iii) income or expenses from reinsurance contracts held;

(iv) insurance finance income or expenses from contracts issued within the scope of IFRS 17; and

(v) finance income or expenses from reinsurance contracts held.

It is not clear why ED/2019/7 specifies presentation of the net amount of 'income or expenses from reinsurance contracts held'; whereas, IFRS 17 permits an insurer to present either a net amount or present separately amounts recovered from the reinsurer and an allocation of the premiums paid [IFRS 17.86].

There is no explanation as to why the aggregation and disaggregation principles noted in the ED/2019/7 *Basis for Conclusions* (paragraphs BC21-BC27) would be applied differentially in IAS 1 compared with IFRS 17 in respect of reinsurance contracts held.

QBE supports having a consistent requirement in IAS 1 and IFRS 17.

3. **Presentation of expenses:** Consistent with the existing IAS 1 *Presentation of Financial Statements*, ED/2019/7, paragraphs 68 and 101(d), proposes that an entity presents an analysis of expenses using a classification based on **either their nature or their function**. The entity must use the method that provides the most useful information to users of their financial statements.

ED/2019/7 would also require the **additional disclosure** of information for operating expenses using the nature of expense method when an entity presents an analysis of expenses in the statement of profit or loss using the function of expense method.

We understand the IASB considered proposing the additional expense information by nature for all expenses, not only operating expenses [ED/2019/7.BC112-BC113] and the ED/2019/7 proposal is something of a cost-benefit compromise. However, we note IFRS 17 compels insurers to present expenses on a functional basis in the profit or loss [IFRS 17.84, 87 & 103] and, therefore, they will need to show the analysis by nature in the notes. Given that IFRS 17 has effectively deemed the functional basis to be the most relevant for users – the justification for requiring insurers to also disclose by nature in the notes is not clear.

This would be more onerous than the existing, more general, requirement in IAS 1.104 to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense. We understand the IASB's proposal is intended to meet a demand from users of financial statements [ED/2019/7.BC111]. However, the extent to which the feedback on which this proposal is based included feedback from users of insurers' financial statements is not clear and there could be considerable cost involved in insurers sourcing the information by nature if information systems are not geared to providing it.

QBE's current view is that an additional requirement for insurers to disclose expense information by nature in the notes is not justified on cost-benefit grounds.

More detailed responses to each of the questions asked in ED/2019/7 are included in the Appendix to this letter.

If you wish to discuss and further clarify the points raised in this submission, please contact Joan Cleary at joan.cleary@qbe.com.

Yours sincerely

Inder Singh
Chief Financial Officer

* Appendix attached

Appendix – responses to ED/2019/7

Question 1—operating profit or loss
Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.
Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.
Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE agrees with the proposal to require all entities to present in the statement of profit or loss a subtotal for operating profit or loss, determined on the basis of the entity's 'main business activities'. We regard this as requiring a form of presentation based on an entity's business model, which we support more generally as a basis for determining relevant presentation and disclosure requirements.

Question 2—the operating category
Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.
Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.
Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE agrees with the proposal to classify as 'operating' all income and expenses not classified in the other categories, such as the investing category or the financing category. We consider this to be a pragmatic approach that should help minimise problems in practice about which classification applies in each particular case.

Question 3—the operating category: income and expenses from investments made in the course of an entity's main business activities
Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.
Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.
Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE agrees with the proposal that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities. QBE's investment activities are largely an integral part of its insurance business model and the users of QBE's financial statements consider investing to be a core function for a general insurer.

Question 4—the operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

- income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or
- all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE has no comment on this proposal.

Question 5—the investing category

Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.

Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE agrees with the proposal that an entity classifies in the investing category income and expenses from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities. Some entities may have both types of investment activities – those that are an integral part of its insurance business model and those that are not. We consider this is a useful distinction to make because users are largely interested in analysing the performance of an entity's main business activities.

Question 6—profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE agrees with the proposal. It appears consistent with the requirements in IFRS 17 *Insurance Contracts* on separately presenting: (a) an insurance service result, comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses.

Question 7—integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE has no specific comment on the merits of this proposal.

However, we note that it would be helpful to explain (perhaps in the Basis for Conclusions) whether and, if so, how the integral/non-integral distinction might relate to the notion in IFRS 9 *Financial Instruments* of a 'strategic investment' [IFRS 9.B2.3]. Integral associates and joint ventures seem to share at least some of the characteristics of strategic investments.

Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE supports the proposals. ED/2019/7 sets out a reasonable balance between:

(a) providing clarity on when information is expected to be presented in the primary financial statements versus the notes; and

(b) allowing a degree of flexibility to enable an entity to present information in a way that suits the entity's business model, based on a set of aggregation/disaggregation principles.

However, please also refer to our comments on Q14.

Question 9—analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Comments

IFRS 17 effectively requires expenses to be presented on a functional basis in the profit or loss [IFRS 17.84, 87 & 103] and, therefore, insurers will need to show the analysis by nature in the notes based on the proposals. Given that IFRS 17 has effectively deemed the functional basis to be the most relevant for users of an insurer's financial statements – we question whether it is useful to require insurers to also disclose by nature in the notes.

This would be more onerous than the existing, more general, requirement in IAS 1.104 to disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense. We understand the IASB's proposal is intended to meet demand from users of financial statements [ED/2019/7.BC111]; however, it is not clear whether the feedback from users on which this proposal is based included a relevant cross-section of users of insurers' financial statements.

For insurers, there could be considerable cost involved in sourcing the information by nature if information systems are not geared to providing it. Accordingly, it is important that the IASB establishes beyond doubt that users of insurers' financial statements would value information on expenses classified by nature in order to properly assess the cost-benefit of this proposal.

QBE's current view is that a requirement for insurers to disclose expense information by nature in the notes is not justified on cost-benefit grounds.

Question 10—unusual income and expenses

(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE is generally supportive of this proposal. However, we note that the ED/2019/7 description and definition of 'unusual income and expenses' is different from the explanation provided in the ED/2019/7 *Basis for Conclusions*.

The ED/2019/7 Appendix A definition is (emphasis added):

> Income and expenses with limited predictive value. Income and expenses have limited predictive value when it is reasonable to expect that income or expenses that are similar in type **and** amount will not arise for several future annual reporting periods.

The ED/2019/7 *Basis for Conclusions* says (emphasis added):

> BC131 The proposed definition of unusual income and expenses requires an entity to assess whether it is reasonable to expect that income and expenses similar in type **or** amount will not arise for several future annual reporting periods. The Board proposes using the term 'reasonable to expect' because this term is used in other IFRS Standards and so should be familiar to entities applying the requirement.

We assume that the definition should be consistent with the Basis for Conclusions and should use 'or' on the basis that an item might be of limited predictive value when it is either: an unusually large item of income or expense; **or** of a type that does not arise regularly.

QBE suggests ensuring that the final requirements in the Standard be made consistent with the definition described in the ED/2019/7 *Basis for Conclusions*.

Question 11—management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of 'management performance measures'.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

Comments

QBE appreciates the IASB's reasoning for wanting entities to provide greater transparency about management performance measures by requiring more disclosures in the audited financial statements, including a reconciliation to the most directly comparable subtotal or total required under IFRS Standards [paragraph 106(b) of ED/2019/7].

The proposals seem to have in mind management performance measures that are communicated to the public simultaneously with the statutory (IFRS-compliant) financial statements and can be readily reconciled to line items in those financial statements. However, this may not always be the case and QBE considers there is a lack of clarity around crucial practical application issues. These issues are highlighted in the following questions:

(a) To what extent are totals and subtotals that are not based on either income or expenses as determined under IFRS to be regarded as management performance measures? For example, are the following widely-used insurance industry metrics regarded as 'subtotals of income and expenses':

  (i) Gross Written Premium – literally, it is not a subtotal because it relates only to 'income' and is not a measure used under IFRS 17, which has a different basis for recognising and measuring premium revenue?

  (ii) Net Written Premium (Gross Written Premium net of Reinsurance) – literally, it is a 'subtotal of income or expenses', but is not therefore, a management performance measure? Literally, Net Written Premium is a subtotal, but is not a measure used under IFRS 17, which has a different basis for recognising and measuring premium revenue and reinsurance expense?

(b) How would measures that are not already communicated publicly by the time of completion of financial statements, but which an entity plans to communicate publicly (for example, in a subsequent investor presentation) be treated under the proposals?

(i) Would the entity be expected to include disclosures in its most recent financial statements for all the measures it might expect to subsequently communicate publicly? If so, this could be impracticable.

(ii) Are management performance measures relating to the immediate past reporting period, that were not necessarily contemplated at the time the financial statements were completed, to be the subject of disclosures in the financial statements for the following period? By the time the following period's financial statements are issued, the disclosures about management performance measures might not be very relevant.

(c) How would the proposals apply if the period relating to the data used for management performance measures does not coincide with the financial reporting period?

Question 12—EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE is supportive of not having requirements on EBITDA – its presentation is adequately catered for as a management performance measure.

Question 13—statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

Comments

QBE is generally supportive of these proposals, including aligning the interest and dividend cash flow classifications with their profit or loss classifications for entities that invest in the course of their main business activities in assets that generate a return individually and largely independently of other resources.

Question 14—other comments

Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

Comments

Yes. It is proposed in ED/2019/7 paragraph 65(c) that there be profit or loss line items for amounts related to the requirements of IFRS 17, which are:

(i) insurance revenue;

(ii) insurance service expenses from contracts issued within the scope of IFRS 17;

(iii) income or expenses from reinsurance contracts held;

(iv) insurance finance income or expenses from contracts issued within the scope of IFRS 17; and

(v) finance income or expenses from reinsurance contracts held.

We note that IFRS 17.86 says:

> 86 An entity may present the income or expenses from a group of reinsurance contracts held …as a single amount; or the entity may present separately the amounts recovered from the reinsurer and an allocation of the premiums paid that together give a net amount equal to that single amount. …

It is not clear why ED/2019/7 proposes to require presentation of the net amount of 'income or expenses from reinsurance contracts held'; whereas, IFRS 17 permits an insurer to present either a single amount or present separately the amounts recovered from the reinsurer and an allocation of the premiums paid [IFRS 17.86].

QBE supports having a consistent approach in IAS 1 and IFRS 17.

QBE considers it is not clear why the IASB has applied the aggregation and disaggregation principles noted in the ED/2019/7 *Basis for Conclusions* (paragraphs BC21-BC27) differentially in IAS 1 compared with IFRS 17 income or expenses relating to reinsurance contracts held.