Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Application of AASB 17 *Insurance Contracts* to the public sector**	**Meeting:**	M167 (September 2018)
Topic:	**Key issues raised in responses to Discussion Paper**	**Agenda Item:**	8.1
Contact(s):	Patricia Au pau@aasb.gov.au Robert Keys rkeys@aasb.gov.au Kala Kandiah kkandiah@aasb.gov.au 03 9617 7626	**Project Priority:** **Decision-Making:** **Project Status:**	Medium Low Consider key issues raised in comments on Discussion Paper

Objective of this paper

1 The main objective of this paper is to provide the Board with a summary of the key issues identified by staff as raised in the feedback received on AASB Discussion Paper (DP) *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* and AASB staff suggestions for further work to be undertaken before staff views can be formed on those issues.

2 This paper does not contain staff recommendations on how the Board should respond to the issues raised by respondents. Consequently, the Board will not be asked to make any technical decisions at this meeting, but rather to note the comments and is invited to provide comments (in session or out of session) to staff if they wish.

Attachments

8.2 AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities*

8.3 S1: Written submission from the Australasian Council of Auditors-General (ACAG)

8.4 S2: Written submission from Angus Thomson

8.5 S3: Written submission from the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)

8.6 S4: Written submission from John Walsh

8.7 S4: Supplementary written submission from John Walsh

8.8 S5: Written submission from icare NSW

8.9 S6: Written submission from the Institute of Actuaries of Australia (IAA)

Structure

3 This staff paper is set out as follows:

(a) Background (paragraphs 4-5)

(b) Key issues identified by staff (paragraph 6)

(c) Overview of written responses for each of the DP's specific matter for comment (Appendix A)

(d) List of respondents (Appendix B)

(e) Collation of feedback (Appendix C – provided for information only)

Background

4 AASB Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* (DP), issued in November 2017, proposes amendments to AASB 17 *Insurance Contracts* to add requirements and authoritative implementation guidance for application by public sector entities to annual reporting periods beginning on or after 1 January 2021. Specifically, the proposed amendments include:

(a) expanding the scope of AASB 17 to include public sector non-contractual arrangements that establish a present obligation to accept significant insurance risk and are managed as part of a scheme that is 'insurance-like';

(b) establishing 'insurance-like' criteria;

(c) providing guidance on the risk adjustment public sector entities should make for non-financial risk;

(d) providing guidance on determining the 'contract boundary' by public sector entities (and therefore the circumstances under which the simplified (premium allocation) approach could be adopted); and

(e) providing an option to allow public sector captive insurers to choose not to apply AASB 17 to self-insurance transactions in their standalone financial reports.

5 The comment period for the DP closed on 28 February 2018. Six written submissions (and one supplementary submission) were received. Paragraph 6 immediately below provides a table that summarises key issues identified by staff from the comment letters received. Appendix A provides a colour-coded pictorial overview of respondents' feedback on each specific matter for comment (SMC), summarising the extent to which respondents agree with the DP proposals. Appendix B provides details of respondents. A more detailed (but not exhaustive) collation of feedback received is available as information for the Board in Appendix C. The collation is not a substitute for the full text of the submissions.

Key issues identified by staff

6 Staff have applied judgement in articulating respondents' feedback on the DP. Staff have noted in the table below areas where respondents express strong views against the proposals, or express diverse views among themselves, or identify issues not contemplated in developing the DP. Staff expect that

these issues will require further analysis, research and outreach to provide recommendations to the Board to address these issues at a future meeting.

Respondents' comment	Staff initial thoughts and suggested further work
Issue 1: Which public sector arrangements should be brought within the scope of AASB 17? (SMC 2 and SMC 3) Four respondents express strong concern that, as drafted, the 'insurance-like' criteria in the DP are too broad. They are concerned that the criteria inappropriately capture social benefits, even some 'community-wide services or safety nets that are not the subject of arrangements between particular parties and are not administered like insurance contracts' that paragraph BC53 of the DP explicitly intends be scoped out. [S1-ACAG, S3-HoTARAC, S4-John Walsh, S5-icare] Two of those respondents (S4-John Walsh, S5-icare) are particularly concerned that public sector monopoly social benefits schemes, such as lifetime care schemes in NSW and SA, might be captured in the scope of AASB 17, especially because the DP uses a life care scheme as an illustrative example. These two respondents are of the view that the lifetime care schemes in NSW and SA are not administered like an insurance contract as these schemes do not indemnify policyholders and do not assume liabilities of policyholders. Rather than proceed with the DP proposals, S3-HoTARAC argue that the AASB should await the outcome of the IPSASB project, or scope out social benefits. See App C, SMC 2 and SMC 3 for more detail	Based on the comments received on the DP, it seems that the current criteria set out in paragraphs E13 and E14 of the DP might not adequately scope out certain arrangements, and some of the examples (eg 3A) do not accurately reflect the types of arrangements found in practice. Staff will further analyse the comments and suggestions respondents have provided and conduct outreach to consider whether the 'insurance-like' criteria and examples proposed in the DP require amendment.
Issue 2: Situations where the risk adjustment for non-financial risks might be zero (SMC 5 and SMC 6) Two respondents (S1-ACAG, S5-icare) are of the view that if there is absolute certainty around government backing of the best estimate liability, then the risk adjustment should be zero. Majority of HoTARAC's jurisdictions and S5-icare express a view that a risk adjustment factor of zero is appropriate where a scheme is so long tailed that volatility is largely mitigated by the smoothing over time. In contrast, S2-Angus Thomson is of the view that even though public sector insurers could have minimal risk adjustments due to having a high	The AASB had considered, in paragraphs BC9-BC10 of the DP, the impact on the risk adjustment arising from government guaranteeing liabilities and the power to recover costs in subsequent years by increasing premiums/levies. At that time, the AASB believed that any potential to pass risk back to external parties relates to possible future transactions that are not the subject of a current period's financial reporting, therefore, the risk adjustment is unlikely to be zero. However, in light of the comments received from respondents, there might be merit in conducting further outreach on this issue and even

Respondents' comment	Staff initial thoughts and suggested further work
tolerance for risks, the risk adjustment would be greater than zero because the uncertainty would not be completely eliminated – particularly from an entity-specific perspective within a current reporting period. See App C, SMC 5 and SMC 6 for more detail	contemplating adding commentary suggesting that, depending on facts and circumstances, the risk adjustment might not be materially greater than zero.
Issue 3: Should public sector entities be allowed to adopt the simplified (premium allocation) approach in all circumstances? (SMC 7 and SMC 8) Three respondents (S2-Angus Thomson, S3-HoTARAC, S5-icare) express a view that public sector entities should be allowed or required to adopt the simplified approach for all their insurance liabilities irrespective of contract boundaries. S2-Angus Thomson expresses a view that the general (more complex) model in AASB 17 paragraphs 32-52 is not suitable for public sector insurance arrangements, and that the contractual service margin element of the general model affecting liabilities for remaining coverage is complex and costly to implement and maintain, as is developing a system for assessing eligibility for the premium allocation approach. See App C, SMC 7 and SMC 8 for more detail	Staff will consider the AASB's Not-for-Profit Entity Standard-Setting Framework and make a recommendation on whether public sector entities should be allowed (or required) to adopt the simplified approach in all circumstances. There seem to be some strong arguments for adopting the simplified approach from a practical expedient perspective. Staff will also undertake further outreach to preparers and users of financial statements to better understand the costs and benefits involved in retaining the DP's proposals. (In relation to feedback we have received from one type of user to date, see paragraph 7 below).
Issue 4: Should captive insurers be given the option to not apply AASB 17 in their standalone financial statements? (SMC 9) S2-Angus Thomson explicitly agrees that captive insurers should have the option of not applying AASB 17, while two other respondents, S3-HoTARAC and S5-icare, state they agree captive insurance arrangements should be scoped out of AASB 17. In contrast, S1-ACAG strongly disagrees with the proposals to exempt captive insurers. ACAG believes that it will create complexity for some entities within a group reporting structure that are required to use two different measurement bases, where one entity meets the captive insurance definition and another does not. S1-ACAG believes that if captive insurers are preparing general purpose financial reports (GPFRs)	In drafting the DP, the AASB was of the view that some captive public sector entities do not currently apply insurance accounting to their insurance transactions and the cost of doing so is likely to be greater than the benefits given the accounting would be reversed on consolidation. The AASB was also of the view that, unlike in the private sector, there is no ASIC or APRA requirement for captive public sector entities to prepare separate standalone financial statements applying insurance accounting (DP paragraphs BC82-BC84). Staff will undertake further outreach to gauge the level of complexity that might arise, in light of the fact that the DP proposal was to provide an option.

Respondents' comment	Staff initial thoughts and suggested further work
then all appropriate standards, which include AASB 17 for insurance-like arrangements, should be complied with. ACAG does not agree that other standards, such as AASB 137, would be appropriate for GPFRs of entities with insurance-like arrangements. See App C, SMC 9 for more detail	
Issue 5: Should the liability for remaining coverage be calculated on an accrual basis? Two respondents (S1-ACAG, S2-Angus Thomson) express the view that the liability for remaining coverage should be calculated on an accrual basis, noting that AASB 17 paragraph 55 seems to suggest cash basis. S2-Angus Thomson strongly suggests that, regardless of the direction that this issue might take at the IASB in respect of IFRS 17, AASB 17 should require public sector insurers to: (a) accrue any unpaid premiums for a current coverage period as receivables; and (b) incorporate them in measuring the liability for remaining coverage. Some insurers may offer premium payment choices. However, S2-Angus Thomson is of the view that payment choices exercised by policyholders should not impact on the liability measure because those choices do not affect the extent of an insurer's obligations. Measuring liability on a cash basis would provide a potentially misleading view of public sector entities' obligations to provide insurance coverage. S1-ACAG believes including accrual amounts better aligns with existing principles and requirements in AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. However, ACAG notes that modifying AASB 17 may cause for-profit public sector entities not being able to claim IFRSs compliance, and if the change is made for NFP public sector entities only then there will be different accounting treatment between FP and NFP entities with insurance-like arrangements. See App C, SMC 11 for more detail	Staff recommends conducting further research and outreach to get a better understanding of how calculating the liability for remaining coverage on an accrual basis might impact public sector insurers' liability (for example, whether it is likely to be material). Staff will also consider the AASB's Not-for-Profit Entity Standard-Setting Framework and make a recommendation on whether this issue is so significant that a modification to an IFRS Standard is warranted. Although we understand the IFRS TRG is aware of this issue, the IASB has not decided to look into it at this stage. AASB staff will continue to monitor any IASB developments in this regard and inform the AASB accordingly.

Summary of preliminary staff outreach to rating agencies

7 Staff recently met with two leading credit rating agency's representatives who specialise in rating governments. These users of public sector reporting indicated that they examine the underlying risk profile of insurance schemes and look at the economic costs to state governments. They also noted that they presently find information from jurisdictions more useful when the jurisdiction is applying AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* to their insurance activities (instead of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*). However, they commented that public sector insurance schemes are not a key area of focus for them, particularly when a government guarantees the liabilities that arise.

New Zealand Accounting Standards Board (NZASB)

8 NZASB agreed to develop a PBE Standard based on IFRS 17 in February 2018. However, after considering issues raised by some Australian constituents (S1-ACAG, S2-Angus Thomson, S3-HoTARAC, S4-John Walsh) on the AASB DP and by the NZ PBE Insurance Working Group, NZASB staff, in their agenda paper to the August 2018 Board meeting, proposes the NZASB "waits for a final IPSAS on *Social Benefits* before considering amendments to the scope of forthcoming PBE IFRS 17 – to avoid creating any scope modifications that conflict with the specific criteria for the insurance approach contained in a final IPSAS on *Social Benefits*"[1].

9 NZASB staff notes there is only one PBE in NZ with 'insurance-like' arrangements outside the scope of IFRS 17, and this PBE is expected to apply the requirements of PBE IFRS 17 as an accounting policy choice.[1]

The International Public Sector Accounting Standards Board (IPSASB)

10 In the IPSASB June 2018 Board meeting, the IPSASB made some decisions regarding the direction of the final IPSAS on social benefits, including:

- retain the scope as stated in IPSASB ED 63 *Social Benefits*, which retains the exclusion of universally accessible services.
- limit the definition of social benefits to cash transfers.
- use of the insurance approach remain optional. This option is only applicable to social benefit schemes that are fully funded from contributions by potential beneficiaries or those whose activities create or exacerbate the risks, and there is evidence that the entity manages the schemes in the same way as an issuer of insurance contracts.

The IPSAB is expected to issue a final standard on *Social Benefits* in December 2018. As that work progressive, AASB staff will continue to keep the Board informed of IPSASB's decisions.

Question to the Board:

Q1: Are there other key issues that have not been identified in the table in paragraph 6 that staff should undertake further outreach on?

Q2: Does the Board have any comments on staff's suggestions for further work?

[1] Information was extracted from NZASB Agenda paper 5.1 of the August 2018 Board meeting. AASB staff notes that NZASB has not made a decision on its staff recommendation as the paper was not discussed in the August 2018 meeting. Staff expects that this issue will be discussed in a later meeting.

Appendix A: Overview of written responses for each SMC

This Appendix provides an overview of respondents' feedback on the DP proposals as reflected in each specific matter for comment. Some SMCs are expressed in a way that differs from the related DP proposals – therefore it is possible that a respondent agrees with the proposal, but disagrees with the SMC. Where that is the case, the cell is shaded green in order to give the Board a snapshot of the degree to which respondents agree with the proposals. For example, S2-Angus Thomson agrees with the DP proposals that the risk adjustment would not be zero; and therefore, the cell in SMC 6 is shaded green even though he disagrees with SMC 6's suggestion that the risk adjustment might be zero. Similarly, in SMC 7 most respondents agree that public sector entities should be allowed to use the premium allocation approach irrespective of contract boundaries, but the cells are shaded pink as the proposals in the DP do not permit this. Staff have used significant judgement in depicting respondents' views in the following grid. Even though some SMCs ask respondents to give reasons for their views, they have generally not been captured in the grid.

Legend (shading)

Green = Respondent agrees with DP proposal

Pink = Respondent disagrees with DP proposal

Amber = Respondent neither completely agrees or disagrees, gives qualified support, or more clarification on the DP proposals

Grey = Respondent providing example (neither agrees or disagrees with the DP proposal)

	S1 – ACAG	**S2- Angus Thomson**	**S3 – HoTARAC**	**S4 – John Walsh**	**S5 – icare**	**S6 – IAA**
SMC 1 - Do you agree with the objective of the proposed Implementation Guidance 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? Why or why not?	Agree	No comment	Agree	Agree, with qualifications	Agree, with qualifications	No comment, but implicitly agree
SMC 2 – Do you agree with the proposed Implementation Guidance for determining when public sector entities should be required to apply AASB 17 *Insurance Contracts* and will the Guidance achieve its objective of greater consistency of financial reporting? Why or why not?	Social benefits should be excluded from AASB 17	No comment	Social benefits should be excluded from AASB 17	Social benefits, particularly lifetime care, should be excluded from AASB 17	Social benefits, particularly lifetime care, should be excluded from AASB 17	No comment, but implicitly agree
SMC 3 – Are there other forms of Implementation Guidance that would be more likely to achieve the objective of greater consistency of financial reporting for the benefit of users?	Not aware of other forms of implementation guidance	No comment	See specific comments on the 'insurance-like' criteria of the DP	Clarify differences between public sector schemes and the practical reality of what can be provided by private sector	Principles based implementation Guidance	No comment
SMC 4 – Do you agree the amendments to AASB 17 should apply to both for-profit and not-for-profit public sector entities?	Agree	No comment	Agree	No comment	Agree	Agree
SMC 5 – Do the proposals provide sufficient guidance to determine the risk adjustment factor for non-financial risk? If not, what additional guidance is needed?	Additional guidance required	No comment	Additional guidance required	Additional guidance required	Agree	No comment
SMC 6 – Are there any situations where there might be a risk adjustment factor of zero (refer paragraph BC11)?	Yes, government guaranteeing liabilities	Risk adjustment will be greater than zero	Yes, long tailed schemes	No comment	Yes, government guaranteeing liabilities, and long tailed schemes	No comment
SMC 7 – When determining the contract boundary, are there any other instances apart from those illustrated in the	Did not comment on whether all public sector	All public sector entities should be given an	All public sector entities should be given an	No comment	All public sector entities should be given an	No comment, but implicitly agree

	S1 – ACAG	S2- Angus Thomson	S3 – HoTARAC	S4 – John Walsh	S5 – icare	S6 – IAA
examples, where there is no premium or the contract boundary is longer than 12 months, but it would still be permitted to apply the simplified approach under AASB 17? If so, do you agree that all public sector entities should be given an exemption to apply the premium allocation approach (the simplified approach) under AASB 17?	entities should have option to apply PAA, but commented that the restrictions in para. E21 for when PAA can be adopted need amendment	exemption to apply the simplified approach, irrespective of contract boundaries	exemption to apply the simplified approach, irrespective of contract boundaries		exemption to apply the simplified approach, irrespective of contract boundaries	
SMC 8 – Do you agree with the following interpretation? If the funding can only be changed with a corresponding change in legislation, then the presumption exists that the simplified approach is not available for application. However, if the funding can be changed at will, then the presumption that the contract boundary is less than 12 months can be supported and the simplified method will be available for use.	Disagree, the proposed restriction about legislative approvals preventing the use of the simplification approach is not appropriate, and that paragraph E21(a) should be removed or modified	Disagree, contractual service margin is complex and costly to implement, and largely unsuitable for public sector	Agree	No comment	Agree	No comment
SMC 9 – Where subsidiaries apply AASB 17 to insurance and insurance-like contracts in the subsidiary's separate financial statements, but at the consolidated group level such contracts are regarded as self-insurance and consequently outside the scope of AASB 17, should such arrangements be scoped out of AASB 17 for the subsidiary's separate financial statements?	Disagree, it will create complexity for entities within a group that are required to use two different measurement bases, where one entity meets the captive insurance definition and another does not. If captive insurers are preparing GPFRs then all appropriate standards should be complied with, including AASB 17 for insurance-like arrangements	Agree, an option should be given to captive insurers	Agree, captive insurers should be scoped out. In these circumstances the government is self-insuring and simply instituting internal cash transfers	No comment	Agree, prior to the advent of IFRS 17, icare was of the view that the TMF should not apply AASB 1023 as the legislation that created it requires NSW Treasury to fund any shortfall in Net Assets - hence not requiring a risk margin.	No comment
SMC10 – Under AASB 17 para 3(c) an entity is required to apply AASB 17 to investment contracts with discretionary participation features, if the entity also issues insurance contracts. (a) Do not-for-profit public sector entities regularly issue both insurance contracts as well as investment contracts with discretionary participation features? (b) … *[Note: (b)-(d) have not been reproduced as no respondents have identified entities that satisfy (a)*]	Not aware of any entities issuing both insurance contracts and investment contracts with discretionary participation features	No comment	Not aware of any entities issuing both insurance contracts and investment contracts with discretionary participation features	No comment	No comment	No comment
SMC11 – Are there other matters raised by the requirements of AASB 17 that you consider should be addressed in respect of public sector entities?	Insurance liability should be calculated on accrual basis. However, concern that if it is changed to	Insurance liability should be calculated on accrual basis; otherwise, it provide potentially	Governments often act as 'insurers of last resort', where private sector entities are unwilling to	No comment	No comment	No comment

	S1 – ACAG	S2- Angus Thomson	S3 – HoTARAC	S4 – John Walsh	S5 – icare	S6 – IAA
	accrual basis would not be IFRS compliant	misleading view of public sector entities' obligations	provide insurance (eg terrorism and some natural disasters). Accordingly, the government may accept insurance risk that are intrinsically difficult to measure reliably			
SMC12 – Overall, are the proposals for public sector insurance accounting in the best interests of the Australian economy?	The DP proposals will ensure consistency of recognition, measurement, presentation and disclosure financial reporting for insurance contracts and insurance-like arrangements regardless of whether such arrangements are conducted in the public or private sectors	No comment	Majority of HoTARAC agrees the proposals have potential to increase focus on risk and risk management on insurance funds. One jurisdiction believe introducing risk margin will lock up government funds and reduce benefits to participants	Disagree, AASB 17 would compromise levy setting and management of lifetime care schemes.	Disagree, introducing risk margin to levy funded scheme will lock up government funds.	No comment
SMC13 – AASB 1023 and AASB 1038 included some regulatory disclosure requirements that have not been carried forward into AASB 17. Do you agree with the AASB's recommendation that these disclosure requirements should not be carried forward to either AASB 17 or AASB *1054 Australian Additional Disclosure*?	Agree	Agree	Agree	No comment	No comment	No comment

Appendix B: List of respondents

The Board received six written submissions on the DP:

Submission no.	Respondent	Type of organisation
S1-ACAG	The Australasian Council of Auditors-General (ACAG)	Public sector auditors
S2-Angus Thomson	Angus Thomson	Personal submission
S3-HoTARAC	The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)	Public sector preparers
S4-John Walsh	Magoo Actuarial Consulting	Actuary
S5-icare	icare NSW, also on behalf of Lifetime Support Authority SA	Public sector preparers
S6-IAA	Institute of Actuaries of Australia	Actuaries

Appendix C: Collation of feedback received

This Appendix is a collation of feedback received on each of the DP's specific matter for comment, developed by staff as a working paper in the process of distilling the key issues listed in paragraph 6 above. It is not comprehensive and therefore is not a substitute for reading the full text of the submissions. It contains additional information provided by constituents that have not been discussed above.

SMC 1 Do you agree with the objective of the proposed Implementation Guidance 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? Why or why not?

SMC 1 Respondents' comments
A. Four of the six respondents (S1-ACAG, S3-HoTARAC, S4-John Walsh, S5–icare) agree that there should be consistency of financial reporting for comparable insurance activities. However, consistent with their views reflected in Issue 1 in paragraph 6 above, two respondents moderate their support: a. S3–HoTARAC: the proposed changes may capture schemes currently not applying insurance accounting, which will increase liabilities and likely to result in increased levies to the public. All entities that currently issue insurance contracts account for the schemes under AASB 1023 *General Insurance Contracts*. This is consistent with the private sector. All schemes that do not issue insurance contracts account for their liabilities under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. b. S5–icare: all schemes that issue insurance contracts should apply insurance accounting standards while social benefit schemes should be able to use AASB 137. This is currently a uniform practice across the public sector. We do not support the mandated use of specific accounting standards on public sector schemes without giving due consideration to the substance of each scheme.
B. Two other respondents (S2-Angus Thomson and S6-IAA) did not comment on SMC1, however, S6-IAA gave implicit support.

SMC 2 Do you agree with the proposed Implementation Guidance for determining when public sector entities should be required to apply AASB 17 *Insurance Contracts* and will the Guidance achieve its objective of greater consistency of financial reporting? Why or why not?

SMC 2 Respondents' comments (see Issue 1 in paragraph 6 above)
A. Two respondents (S1- ACAG, S3 – HoTARAC) agree that the proposed implementation guidance is suitable for public sector arrangements that are insurance-like and agree with attempts to remove current reporting inconsistencies. However, consistent with Issue 1 in paragraph 6 above, they are concerned that the proposed 'insurance-like' criteria inappropriately capture social benefit payments.
B. Similarly, two respondents (S4-John Walsh, S5–icare) disagree with the proposed guidance, and are concerned that it would potentially cause significant dislocation in the pricing and management of lifetime care schemes, to the ultimate detriment of state coverage of social benefits.
C. Two other respondents (S2-Angus Thomson and S6-IAA) did not explicitly comment on SMC2.

SMC 2 Respondents' comments (see Issue 1 in paragraph 6 above)

D. S1 - ACAG provided the following comments on the 'insurance-like' criteria:

Funding (Paragraph E14(a), Basis for conclusions BC63 to BC68, Illustrative Examples)

ACAG agrees AASB 17 is appropriate when the arrangement is substantially self-funded from premiums and levies. However, the proposed guidance is confusing when the criteria is applied to arrangements that are substantially (or indeed fully) funded through contributions by government. The criteria are difficult to distinguish from social benefits that are recognised on a 'pay-as-you-go' basis and other indicators provided at paragraph E14 of the DP (e.g. assessment of claims performance) do not help clarify the confusion. Furthermore, The DP does not clarify how the criteria for an 'insurance-like' arrangement can move from 'necessary' to 'sufficient' as outlined in paragraph E13.

Assessment of claims performance (Paragraph E14(b), Basis for conclusions BC69 to BC73, Illustrative Examples)

Paragraph E14(b) is not useful in distinguishing social benefit type arrangements from insurance-like arrangements. In particular, it could be argued that "regular" reviews, such as for budget forward estimates and for inter-generational reports, that used actuarial assumptions such as population growth, met this criteria. Similarly, it could be argued that such reviews are not frequent enough to meet this criteria.

Similar arrangements in the private sector (Paragraph E14(c), Basis for conclusions BC74, Illustrative Examples)

Example 2

Paragraph IE13 refers to the annual registration fee being prescribed under state legislation. This seems to imply that the simplified approach would be prohibited by paragraph E21(a). This contradicts paragraph IE19 that states the simplified approach is available for application.

General comments on proposed examples

The analysis for each of the examples should not introduce facts that are not in the stated fact pattern. For example, the fact pattern for example 2 should make it clear that the amount of registration fee can be changed. ACAG also have concerns with examples 3A and 3B.

E. S3-HoTARAC provided the following comments on the 'insurance-like' criteria:

- The proposed guidance does not clearly distinguish between insurance-like arrangements and social benefit payments made by governments to all citizens of that jurisdiction.

- The AASB should await further work on the IPSASB's project on social benefits before proceeding with defining arrangements that are insurance like.

- The AASB should consider the accounting for social benefits payments before proceeding with the application of insurance principles to the public sector, as both payments are made on the occurrence of an event, such as an accident, and clear guidance is needed to distinguish between the two.

SMC 2 Respondents' comments (see Issue 1 in paragraph 6 above)
• The Board's rationale for rejecting IPSASB's approach to incorporate definitions used for Government Finance Statistics (GFS) is questionable. It would be consistent and desirable to use GFS definitions where these are available. • Restricting the application of the insurance standard to situations where funding is provided by beneficiaries would avoid confusion with social benefit payments that are payable when recipients meet specified eligibility criteria. HoTARAC is not convinced the criteria used in the DP in the absence of this simple test are adequate. • Social benefits are recognised on a 'due and payable' basis, when an applicant fulfils the eligibility criteria for that fortnight's payment. Application of the measurement principles of AASB 17 to these benefits would result in the recognition of lifetime liabilities with no corresponding asset for the government's right to tax future earnings. • The funding criterion in Example 3B and Example 4 are not consistent. Both examples are funded by the government, rather than levies. However, in 3B the funding criterion is met when the Government funds are contributions under legislation, while in 4 where funding is received from a government appropriation the criteria is not met. This should not create a difference in whether the criteria will be met, and the rationale given does not address this. In both examples, neither the insured nor the party creating the risk pays anything. If this is considered irrelevant, then the funding criterion itself would appear to be conceptually irrelevant. F. S5–icare raised the following specific concerns on the Lifetime Care schemes in NSW and SA: • It is not appropriate to apply insurance accounting standards to public sector schemes that are run for social benefit. The Lifetime Care schemes in NSW and SA are much more aligned to the National Disability Insurance Scheme in both design and application than to the private sector. • Lifetime Care in NSW and SA do not issue insurance contracts as per the definition in AASB 17 and therefore should not be scoped in AASB 17. Unlike the insurance schemes operated by icare in workers compensation and home builders' warranty, the Lifetime Care and Support Fund does not indemnify policy holders. There is no need for a person who is eligible to participate in the Scheme to make a claim on a policy holder, such as a driver. Subrogation is irrelevant to the Lifetime Care and Support schemes because the schemes do not assume liabilities of policy holders. Instead, the schemes comprise statutory benefits that are provided to eligible participants on application to the Authority. • Holders of Compulsory Third Party (CTP) insurance pay a separate levy to meet the costs of the provision of compensation to participants in the Scheme, in recognition of the fundamental difference between the CTP scheme and the Lifetime Care and Support scheme. These schemes operate as a baseline social benefit available to those meeting the eligibility criteria. Once accepted, disability services or treatment, care and support are organised and paid for on an ongoing basis for the rest of the participant's lives. • The Lifetime Care schemes, such as those in NSW and SA (and some other jurisdictions), are backed by government and are governed by legislation that determines the breakeven levy required (there is no contractual service margin as it is not for profit) like the levy on Medicare that partly funds the NDIS. Icare and Lifetime Support SA have negligible cash flow risk (especially in the medium term of at least 30 to 40 years from now while they will be strongly cash flow positive).

SMC 2 Respondents' comments (see Issue 1 in paragraph 6 above)
• The levy must reflect the true economics of these social benefit schemes that do not require capital adequacy buffers. These buffers (eg: risk margin/using a risk free discount rate) are required in the private sector to ensure adequate funds to meet legally binding insurance contracts issued to policy holders. • Social benefit schemes should be excluded from having to apply AASB 17 – which is more applicable to entities that issue insurance contracts. icare NSW and Lifetime Support SA disagree with the rationale provided as to why they should be similarly reported. • The proposed criteria in determining whether a public-sector entity should adopt AASB 17 is the existence of similar arrangements in the private sector. As there is no private sector equivalent for Lifetime Care or Dust Diseases Care this also supports not including them within the scope of AASB 17. • Contrary to the DP, this coverage has not been previously provided in the private sector. Eg: The private sector wanted to transfer the long-term liability risk to the state after five years when negotiating the opportunity to underwrite the Lifetime Care scheme around 2004/05 - similar to the new NSW CTP scheme. This defines schemes like Lifetime Care as necessarily publicly underwritten with no private sector equivalent.

SMC 3 Are there other forms of Implementation Guidance that would be more likely to achieve the objective of greater consistency of financial reporting for the benefit of users?

SMC 3 Respondents' comments (see Issue 1 in paragraph 6 above)
A. S1-ACAG: not aware of other forms of implementation guidance that would better achieve the objective of greater consistency. B. S3-HoTARAC provided the following comments on paragraph E13 and E14: • the term 'commercial substance' refers to change in future cash flows, and therefore any arrangement that involves government payments would impact cash flows and satisfy E13(a). Therefore, it is not a useful discriminator. • legislative changes could retrospectively amend beneficial rights; therefore, paragraph E13(b) should more clearly distinguish between insurance contracts (legally binding instruments) and social benefit schemes where the benefits are determined by legislature and therefore can be adjusted retrospectively. • paragraph E13(c) inappropriately captures any government benefit payment where the only qualifying criterion is meeting the eligibility requirements, which can be interpreted as 'enforceable rights'. • paragraph E14(a) on funding seems to cover all potential sources of funds. It would be more useful if it specifically excludes amounts paid out of consolidated revenue. • in applying E14(b), there is a need to distinguish between assessments made to determine insurance premiums, such as those undertaken by a private insurer, and those undertaken for policy and planning purposes. Government entities may undertake analysis to assess future taxation requirements to fund social benefits such as pensions, manage health care outcomes for beneficiaries of the National Disability Insurance Scheme or engage an actuary to assess the budget impacts of continuing with a particular benefit payment. None of these is evidence of an insurance-like arrangement.

SMC 3 Respondents’ comments (see Issue 1 in paragraph 6 above)
C. paragraph E14(d) should be clearer that benefits funded from general taxation revenue are excluded. D. S4-John Walsh: clarification of the differences in arrangements between the schemes under consideration, and differences between what private for-profit sector can provide could help achieve greater consistency. E. S5-icare: principles based Implementation Guidance would enable entities to apply more readily to their unique circumstances. F. S2-Angus Thomson and S6-IAA did not explicitly comment on SMC3.

SMC 4 Do you agree the amendments to AASB 17 should apply to both for-profit and not-for-profit public sector entities?

SMC 4 Respondents’ comments
A. Three respondents (S1- ACAG, S3 – HoTARAC, S5–icare) agree that the amendments should apply to both for-profit and not-for-profit public sector entities. B. S1-ACAG: clarify whether requirements in paragraph E21 are intended to modify AASB 17, as this may result in a for-profit entity not being able to claim compliance with IFRSs. ACAG’s view is that other insurance-like arrangements, not being insurance contracts under AASB 17, can be accounted for on a simplified basis and still comply with AASB 17. C. S3 – HoTARAC: the guidance needs to distinguish between insurance and social benefits. D. Three other respondents (S2-Angus Thomson, S4-John Walsh, S6-IAA) did not specifically comment on SMC 4, however, S6-IAA gave implicit support.

SMC 5 Do the proposals provide sufficient guidance to determine the risk adjustment factor for non-financial risk? If not, what additional guidance is needed?

SMC 5 Respondents’ comments (see Issue 2 in paragraph 6 above)
A. Three respondents (S1 – ACAG, S3 – HoTARAC, S4 – John Walsh) recommend further guidance on techniques used to determine the non-financial risk adjustment, specifically: • S1 – ACAG: further guidance on how to determine the risk adjustment factor in circumstances where government guarantees the insurance arrangement (i.e. benefits achieved through taxing powers and monopoly provider status in respect of providing certain insurance/insurance-like arrangements). • S1 – ACAG: include a definition of ‘non-financial risk’. • S3- HoTARAC: include examples of estimation techniques that can be used in determining the risk adjustment factor. HoTARAC is of the view that the risk adjustment factor should be determined by each scheme giving due consideration to the risks of each scheme. • S4 – John Walsh: include guidance on the consideration of the combined forces of monopoly coverage, compulsory and universal insurance, state levy raising capability and state underwriting of liabilities.

SMC 5 Respondents' comments (see Issue 2 in paragraph 6 above)
B. S1 - ACAG suggests considering whether the public and private sector risk margins could be aligned. Public sector arrangements often measure claims liabilities at a provision for adequacy at 75% (per APRA capital adequacy requirements) and private sector arrangements use a provision for adequacy at 90% and higher. It is not clear whether these differences are due to factors included in the DP, or differences in understanding between the public and private sectors in how to apply the requirement. C. S5-icare believes the DP has sufficient guidance and S6-IAA did not comment on SMC5. D. See SMC 6 for comments from S2-Angus Thomson.

SMC 6 Are there any situations where there might be a risk adjustment factor of zero (refer paragraph BC11)?

SMC 6 Respondents' comments (see Issue 2 in paragraph 6 above)
A. Two respondents (S1-ACAG, S5-icare) believe that if there is absolute certainty around the government backing of the best estimate liability then the risk adjustment would be nil. S1-ACAG recommends updating the basis for conclusions to reflect this. B. Two respondents (S3 – HoTARAC (majority), S5–icare) identify where a scheme is so long tail that volatility is largely mitigated by the smoothing over time, the risk adjustment factor could be zero. C. In contract, S2 – Angus Thomson believes risk adjustments would be greater than zero because the uncertainty would not be completely eliminated even for the most risk tolerant entity. D. S1 - ACAG uses the State Insurance Regulatory Authority (SIRA) example to illustrate their concerns: From a risk perspective, paragraph BC9 (a) and (b) mean that any uncertainty related to outstanding claims cash flows from past transactions is effectively passed on to the external parties, even if it does relate to a future period. If this is the case – and the risk adjustment factor is aimed at reflecting uncertainty – it seems incorrect to disregard the impact of being able to adjust levies and benefits in future periods, and to state that a zero risk adjustment would not be appropriate. Note that any decision to change levy rates would ordinarily be outside the authority of the individual entity (e.g. set by another entity e.g. State Insurance Regulatory Authority (SIRA) – the independent regulator, with SIRA setting rates so that individual schemes are self-funded.) ACAG believes that in a public sector context, it is important that the circumstances in which a risk margin should be applied, and its size (i.e., a small or large margin) are clear. The guidance should be clear how the ability to change levy rates (or benefits) in the future impacts risk margins under different scenarios. For example, levies can be changed through: (i) legislative change, (ii) through an independent regulator, without direct legislative change (e.g. in response to an annual independent review which is required by legislation, but which aims for schemes to be fully funded) or (iii) at the discretion of the entity.

SMC 6 Respondents' comments (see Issue 2 in paragraph 6 above)
ACAG suggests enhancing definitions by expanding the term 'risk adjustment / risk margin' to take account for public sector issues discussed. ACAG also suggests including definitions for 'risk appetite', 'risk aversion' and 'degree of diversification'. E. S5–icare provided the following additional comments on SMC 6: The APRA regulated private sector requires a risk margin to ensure adequate reserves are available to ensure claims payments can be made in a timely manner. Social benefit schemes should be able to calculate their liabilities using long-term assumptions about expected investment returns relative to expected cost inflation. Given payment for treatment, care and support is paid on an as needed basis for the life of the participant, and the funding for which is collected up front, these schemes can weather significant volatility in investment results from year to year. F. S2- Angus Thomson expresses the following comments: • in respect of annual contracts, the existing transactions should be considered on a stand-alone basis – that is without reference to likely future transactions (consistent with DP paragraph BC9). • public sector entities should incorporate risk adjustments in measuring claim liabilities (consistent with DP paragraph BC10). • financial statements should recognise and measure existing transactions and any information that might be provided about future transactions should be included in disclosures only. • The measurement of risk adjustments is entity specific, being based on the compensation the entity requires for bearing the uncertainty about the amount and timing of insurance cash flows (AASB 17 paragraph 37) and, as the DP acknowledges, public sector entities could have minimal risk adjustments due to having a high tolerance for risk. However, those risk adjustments would be greater than zero because the uncertainty would not be completely eliminated even for the most risk tolerant entity. G. Two respondents (S4-John Walsh and S6-IAA) did not comment on SMC6.

SMC 7 When determining the contract boundary, are there any other instances apart from those illustrated in the examples, where there is no premium or the contract boundary is longer than 12 months, but it would still be permitted to apply the simplified approach under AASB 17? If so, do you agree that all public sector entities should be given an exemption to apply the premium allocation approach (the simplified approach) under AASB 17?

SMC 7 Respondents' comments (see Issue 3 in paragraph 6 above)
A. Three respondents (S2-Angus Thomson, S3-HoTARAC, S5-icare) express a view that public sector entities should be allowed or required to adopt the simplified approach for all their insurance liabilities irrespective of contract boundaries. B. The three other respondents (S1-ACAG, S4-John Walsh, S6-IAA) did not explicitly comment on whether all public sector entities should be allowed to adopt the simplified approach in all cases. C. S2-Angus Thomson expresses a view that the general (more complex) model in AASB 17 paragraphs 32-52 is not suitable for public sector insurance arrangements for the following reasons: • The contractual service margin allocation required in the general model was created to achieve consistency of profit recognition among for-profit insurers for contracts with long coverage periods. The motive for public sector insurers is either to break even or, for those that are for-profit oriented, any margin is a function of the exercise of monopoly power, not profit in a marketplace. (S5-icare also expresses a view that there is no contractual service margin for public sector insurers.) • The main focus for public sector insurers and their financial statement users is on claim liabilities rather than liabilities for remaining coverage. Accordingly, requiring application of the general model to liabilities for remaining coverage, with all its complexities, would impose an undue reporting burden. • Public sector arrangements with contract boundaries greater than a year are usually schemes that provide support to the community and fill a gap that private sector insurers are reluctant to fill and often intersect with the public health system, which does not give rise to insurance-like arrangements. • Given the lack of relevance of the general model in the public sector, it would be simpler to have only one measurement model for liabilities for remaining coverage to avoid having to set criteria for distinguishing between arrangements with one-year or greater-than-one-year contract boundaries, which would be an added complexity and subject to interpretation. D. S2-Angus Thomson also expresses a view that the contractual service margin element of the general model affecting liabilities for remaining coverage is complex and costly to implement and maintain, as is developing a system for assessing eligibility for the premium allocation approach. E. S1 - ACAG provided the following comments in relation to contract boundary: ***Clarification of premiums vs levies*** Paragraph E21 should make more explicit the distinction between premiums and levies. Throughout the DP, premiums and levies are discussed together, as being similar in nature. However, for this paragraph, premiums are treated differently to levies. For premiums, reference is made to AASB 17 paragraphs 34 and 35 (therefore enabling ongoing compliance with IFRSs), while levies have modified requirements. ACAG would prefer the proposals use a single term - 'premiums' and include further discussion/guidance on when other funding arrangements would be considered to be premiums.

SMC 7 Respondents' comments (see Issue 3 in paragraph 6 above)
Using the terms 'premiums' and 'levies' interchangeably implies that there is no distinction. However, in the Commonwealth context, there is a very important distinction. A levy is considered to be a tax for the purposes of the Constitution and under s55 of the Constitution, it must have its own Act, whilst a premium is considered to be a fee for a service. • While it is common for entities to subsequently receive appropriation funding for a purpose related to the levy and for that funding to be based substantially on levy receipts, the funding is subject to the normal budget/appropriation process and there is no obligation for the government to pass on the levy amount. This means there is a disconnect between the levy as taxation legislation and parliamentary appropriations provided to fund government activities. • Premiums on the other hand are considered to be a fee for a service arrangement and would be retained by the entity. Premiums can generally be varied by the entity (occasionally subject to ministerial oversight or legislative constraints e.g. means testing). Changes to levies would be subject to specific consideration of the particular levy Act. ***Residential builders' insurance*** Clarify the application of the contract boundary provisions related to residential builders' insurance. For example, the Queensland Building and Construction Commission (QBCC) provides the Queensland Home Warranty Scheme and states that structural defects are covered for six and a half years' duration for a single premium payment. For this situation, it appears that rather than the contract covering risk for over six years, the risk relates to a claims incurred approach for defects in the construction or alterations undertaken within a short period of time. **Simplifications for levies** - ACAG agrees with the proposed simplifications in paragraphs E21(b) and E21(c).

SMC 8 Do you agree with the following interpretation? If the funding can only be changed with a corresponding change in legislation, then the presumption exists that the simplified approach is not available for application. However, if the funding can be changed at will, then the presumption that the contract boundary is less than 12 months can be supported and the simplified method will be available for use).

SMC 8 Respondents' comments (see Issue 3 in paragraph 6 above)
A. Three respondents (S2-Angus Thomson, S3-HoTARAC, S5-icare) express a view that public sector entities should be allowed or required to adopt the simplified approach for all their insurance liabilities. B. S1 – ACAG: the proposed restriction about legislative approvals preventing the use of the simplified approach is not appropriate, and paragraph E21(a) should be removed or if not removed, modified. C. S1 – ACAG: paragraph E22 indicates annual reviews would generally result in the simplified approach similar to that permitted under paragraphs 34 and 35. Annual reviews of levies can be undertaken even when legislative amendment is required for changes. For example, for private health insurance premiums, these need approval by an external entity (Commonwealth Minister for Health). While not specifically requiring legislative amendment, the approval is similarly not within the control of the insurer.

SMC 8 Respondents’ comments (see Issue 3 in paragraph 6 above)
D. S1 – ACAG: The restrictions proposed in paragraph E21(a) may cause unnecessary prohibition on the use of the simplified approach for: • arrangements where an external party is required to approve levy changes, even when that party is within the same consolidated entity as the affected entity (e.g. whole of government) • arrangements that are partially funded by government contributions, given it can be argued that budget appropriations require annual legislative approval.

SMC 9 Where subsidiaries apply AASB 17 to insurance and insurance-like contracts in the subsidiary’s separate financial statements, but at the consolidated group level such contracts are regarded as self-insurance and consequently outside the scope of AASB 17, should such arrangements be scoped out of AASB 17 for the subsidiary’s separate financial statements?

SMC 9 Respondents’ comments (see Issue 4 in paragraph 6 above)
A. Three respondents (S2 - Angus Thomson, S3 – HoTARAC, S5– icare NSW and Lifetime Support SA) agree that captive insurers should have the option of not applying AASB 17. B. In contrast, S1-ACAG strongly disagrees with the proposals to exempt captive insurers. ACAG believes that it will create complexity for some entities within a group reporting structure that are required to use two different measurement bases, where one entity meets the captive insurance definition and another does not. If captive insurers are preparing general purpose financial reports (GPFRs) then all appropriate standards, which include AASB 17 for insurance-like arrangements, should be complied with. ACAG does not agree that other standards, such as AASB 137, would be appropriate for GPFRs of entities with insurance-like arrangements. If there are no users dependent upon the financial reports of the captive insurer, then it is up to the appropriate government to exempt the body from preparing GPFRs. C. The two other respondents (S4-John Walsh, S6-IAA) did not explicitly comment on captive insurance arrangement, although S6-IAA implicitly agrees with the DP proposal.

SMC 10 Where Under AASB 17 para 3(c) an entity is required to apply AASB 17 to investment contracts with discretionary participation features, if the entity also issues insurance contracts.

(a) Do not-for-profit public sector entities regularly issue both insurance contracts as well as investment contracts with discretionary participation features?
(b) If so, would the accounting treatment of such investment contracts with discretionary participation features be significantly different under AASB 17 as compared to their current accounting treatment?
(c) If the existing accounting treatment is significantly different, would the proposed accounting treatment under AASB 17 impose undue cost or effort on the entity?
(d) If the answers to questions (a)-(c) were affirmative, do you propose that all investment contracts with discretionary participation features issued by a not-for-profit public sector entity should be entirely scoped out of AASB 17? If so, what requirements should apply?

SMC 10 Respondents’ comments
A. Two respondents (S1-ACAG, S3-HoTARAC) explicitly state that they are not aware of any public sector entities issuing both insurance contracts and investment contracts with discretionary features. B. Other respondents did not comment on SMC10.

SMC 11 Are there other matters raised by the requirements of AASB 17 that you consider should be addressed in respect of public sector entities?

SMC 11 Respondents' comments (see Issue 5 in paragraph 6 above)
A. Two respondents (S1-ACAG, S2-Angus Thomson) recommend that the liability for remaining coverage should be calculated on an accrual basis. B. S1-ACAG: AASB 17 paragraph's 55(a)(i) and 55(b)(i) refer to amounts received which could be construed as 'cash accounting'. ACAG suggests the AASB consider also including amounts 'receivable' in these sub-paragraphs as this better aligns with existing principles and requirements in AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers. If the AASB agrees, the remainder of paragraph 55 should be revised, in particular, the recognition of expenses (which currently refers to cash flows only). However, ACAG notes that modifying AASB 17 as proposed above may cause complications. If the requirements for public sector entities are changed, for-profit public sector entities may not be able to claim IFRSs compliance. If the change is made for not-for-profit public sector entities only then there will be different accounting for for-profit and not-for-profit entities with insurance like arrangements. C. S2-Angus Thomson: the premium allocation approach appears to involve a cash receipts basis (AASB 17 paragraph 55). This would provide a potentially misleading view of public sector entities' obligations to provide insurance coverage. For an insurer that offers premium payment choices (for example, annual and quarterly) for contracts providing annual coverage, the amount of the liability for remaining coverage would vary depending on the choices made by policyholders. However, the payment choices exercised by policyholders should not impact on the liability measure because those choices do not affect the extent of an insurer's obligations. In addition, in the context of a public sector insurer occupying a monopoly position, a policyholder who pays quarterly premiums for a contract with an annual coverage period has no less of a commitment to a full year's coverage than a policyholder who paid an annual premium. Although a policyholder of a monopoly public sector insurer has the option to cancel a policy; they have no option to enter a substitute contract with another insurer. For example, anyone wanting to register and drive a motor vehicle in Victoria must have a contract with VicRoads (and through VicRoads with the Transport Accident Commission). Regardless of the direction that this issue might take at the IASB in respect of IFRS 17, I would urge that AASB 17 require public sector insurers to: (a) accrue any unpaid premiums for a current coverage period as receivables; and (b) incorporate them in measuring the liability for remaining coverage. D. S3 – HoTARAC: Governments often act as 'insurers of last resort', where private sector entities are unwilling to provide insurance. Examples include terrorism and some natural disasters. Accordingly, the government may accept insurance risk that are intrinsically difficult to measure reliably.

SMC 12 Overall, are the proposals for public sector insurance accounting in the best interests of the Australian economy?

SMC 12 Respondents' comments
A. Two respondents (S4 – John Walsh, S5–icare) express the view that the proposals are not in the best interest of the Australian economy. B. S1-ACAG did not comment on whether the proposals are in the best interests of the Australian economy, but considers that the proposals provided will ensure consistency of recognition, measurement, presentation and disclosure financial reporting for insurance contracts and insurance-like arrangements regardless of whether such arrangements are conducted in the public or private sectors. C. The majority of HoTARAC agrees with SMC12 to the extent the proposals are modified to exclude social benefit payments. The proposals have the potential to increase the focus on risk and risk management across public sector insurance funds. D. One HoTARAC member has a view that is consistent with the view of S5-icare that where the benefits for levy funded public sector schemes are set by legislation, introducing the requirement for a risk margin means that either: • additional government funds will be locked up in investment funds, raised through increased levies or increased Government contributions; or • the benefits to participants would need to be reduced to maintain the funding ratio. E. Other two respondents (S2-Angus Thomson, S6-IAA) did not comment on SMC12. F. S4-John Walsh provided the following comments regarding lifetime care schemes: • prior to the introduction of the lifetime care schemes, compensation for lifetime care costs under fault-based CTP were inadequate in coverage, long-term benefits and early access to rehabilitation. The current lifetime care schemes in NSW and SA provide a first step in extending support to people who sustain these major injuries in motor vehicle accidents. They are compulsory schemes, covering the full population and managed by a monopoly public sector entity. These schemes are uninsurable in the private sector and are not 'insurance-like' within the definitions of AASB. • Imposing the recommendations of AASB 17 would severely compromise the orderly levy setting and financial management of lifetime care schemes, and as a result would compromise the orderly agreement and implementation of the National Injury Insurance Scheme.

SMC 12 Respondents' comments
G. S5–icare: expanding the scope of AASB 17 to include public sector entities that do not issue insurance contracts will see a significant increase in Lifetime Care scheme liabilities - due to the inclusion of a risk margin and the use of a risk-free interest rate to discount liabilities. To maintain scheme sustainability, the government would have to either increase the levy charged on NSW and SA motorists or retrospectively reduce benefits to participants of the scheme. By expanding the scope of AASB 17 to include schemes that are inherently managed by the public sector, excess government funds will be locked up in an unproductive manner due to the application of a risk-free discount rate to future cash flows - effectively negating the intention of allowing for the different time values of money. Moreover, this recommendation would likely be an impediment to the orderly progress of the National Injury Insurance Scheme (the corollary scheme to the NDIS), which was assessed by the Productivity Commission as having a clear overall net economic benefit to the Australian taxpayer.

SMC 13 AASB 1023 and AASB 1038 included some regulatory disclosure requirements that have not been carried forward into AASB 17. Do you agree with the AASB's recommendation that these disclosure requirements should not be carried forward to either AASB 17 or AASB 1054 *Australian Additional Disclosures*?

SMC 13 Respondents' comments
A. Two respondents (S1-ACAG, S3 – HoTARAC) agree that these disclosures are not needed in AASB 17. B. S1-ACAG: some of the disclosures not carried forward may be captured by AASB 17's 'significant judgements' requirements in paragraphs 117-120. C. S2 - Angus Thomson: subject to consultation with the New Zealand Accounting Standards Board, these disclosures are not needed in accounting standards. They are more in the nature of regulatory information that might be set and maintained by other regulators, such as a prudential regulator. D. The three other respondents (S4-John Walsh, S5-icare, S6-IAA) did not comment on SMC13.

Other comments

Selected other comments from respondents (where not already reflected above)
A. S5-icare: the DP is prescriptive in nature and expands on the scope of AASB 17 for public sector entities that do not issue insurance contracts. This deviates from the principle based approach previously adopted by the AASB when issuing accounting standards. B. S6-IAA: IAA broadly support the objectives of the AASB proposal and agree that economically similar liabilities should be valued consistently. The changes will be significant for some schemes. Many schemes that have insurance-like liabilities currently apply AASB 137. For some of these schemes, reported liabilities under AASB 17 will be significantly higher, largely because the discount rates they currently adopt differ from the market-consistent rates that reflect the characteristics of the liability cash flows required by AASB 17. The requirement for a risk adjustment to be included under AASB 17 will also serve to increase reported liabilities. While reported liabilities will increase for some schemes, the nature of the underlying obligations will remain unchanged. While some stakeholders may prefer that liabilities remain reported at levels lower than they would be under AASB 17, on its own this doesn't seem to be a strong enough argument to offset the benefits that arise through consistency of financial reporting. Further, it is for governments to decide, having regard to factors such as the utility of benefits provided, government perpetuity of existence and taxation powers, their approach to scheme management, including targeted solvency levels. C. S4-John Walsh: the critical issue is in identifying those public sector monopoly schemes which are not and never have been underwritten in the private sector, and nor are capable of underwriting within reasonable and acceptable pricing. These schemes provide universal coverage and social benefits to citizens who become injured or sustain disability within the eligibility criteria of the statute, rather than indemnify a contracted policyholder. They provide entitlement to eligible citizens for lifelong social benefits, implying future cash flows of up to 100 years, far beyond any notion of immunised matched portfolios. D. S4-John Walsh provided the following comments specifically on the NSW Lifetime Care and Support Scheme and the SA Lifetime Support Scheme: Example 3A in the DP – "Life care scheme operated by the DEF authority" refers specifically to NSW Lifetime Care and Support Scheme and South Australia Lifetime Support Scheme. However, the descriptive element of Example 3A contains misleading statements that lead to the conclusion that the lifetime care scheme is 'insurance-like'. He provides the following examples of these statements: ***In IE22: "there is an element of voluntariness in that state residents can choose whether to own and register their vehicle…"*** While this statement is true, it is irrelevant in the context of the operation of the scheme. The required aggregate levy is estimated independently of the number of registered vehicles, and is apportioned accordingly. Coverage by the schemes is universal, and provides entitlement to anyone who meets the level of disability requirement and is injured through the use or operation of a motor vehicle in the relevant jurisdiction, including pedestrians - the entire population is protected. There is no notion of voluntary coverage. ***In IE23: "the nature of what motorists received for paying DEF levies is somewhat unclear at time of payment (different private sector insurers may have different disclosure of what the scheme does)"*** Private insurers are not responsible for informing motorists or the public of their entitlements under the lifetime care schemes. These are prescribed by the statutes and are included in the guidelines and

Selected other comments from respondents (where not already reflected above)
rules produced by the authorities. Some private insurers offer optional additional coverage in the event of severe injury, which may differ between insurers; this is a private insurance matter and beyond the scope or responsibility of the lifetime care schemes. Paragraphs IE24 and IE25 correctly distinguish between (a) an insurance part of the CTP and registration transaction, which involves a contractual agreement by the policyholder to be indemnified by the insurer as to liability, and (b) a noninsurance part, which collects levies to fund an aggregate cost commitment, with no contractual agreement or policyholder or individual indemnity or liability. Nevertheless paragraph IE26 then attempts to force the transaction of the lifetime care scheme into a AASB 17 paradigm. It then incorrectly states: • in subsection (a) that in the absence of the lifetime care schemes the social benefits provided by these schemes would be the responsibility of the drivers. John Walsh argues that the benefits provided by lifetime care schemes have never been and are not able to be covered by private insurance. This section also errs by bringing compensation for loss of earnings within the coverage • in subsection (e) that, again, there is a transfer of risk from policyholders to the scheme. Policyholders have never been responsible for the type of no-fault whole of life liabilities covered by the lifetime care schemes. Paragraph IE27 provides an assessment of the extent to which the lifetime care schemes meet the requirements of 'insurance-like arrangements". John Walsh believes the following misunderstandings are contained in these arguments: • in subsection (b), the argument is incomplete by failing to acknowledge that the statute creates Rules/Guidelines that are regularly adjusted by the authorities and that effectively amend operations and implementation of the intention of the statute. In some cases these adjustments have implications for future scheme liabilities, including liabilities in respect of previously incurred years. Many of these changes would be challenged in a contractual insurance arrangement; • in subsection (g) it is argued that similar arrangements are entered into by for-profit entities and accounted for as insurance contracts. This is incorrect. The no-fault long-term cash flows provided under the lifetime care schemes have never been available in the private sector market; the previous CTP coverage differed on the fundamental bases of: (a) coverage - only claimants who could establish liability of an insured policyholder were entitled to benefits, (b) level of benefits - were not guaranteed but were subject to negotiation between the insurer on behalf of the policyholder and plaintiff lawyers on behalf of the injured party. There was almost always a negotiation rather than full retribution, and in many cases there was a reduction for alleged contributory negligence, (c) there was no direct relationship between the settlement amount and the provision of lifetime care. Once the claimant received their agreed benefit they were free to dispose of that in any way they wished. The number of cases reverting to the Administrative Appeals Tribunal having expended their benefits and applying for Social Security support is testament to the under provision of future care, and (d) the benefits were not paid as a lifetime cash flow purchase of lifetime care, but rather as a lump sum. From an insurance accounting perspective this means that the term of the liabilities was very much lower than lifetime care schemes - typically in the order of four to five years, compared to a cash flow in lifetime care schemes of up to 100 years, and an

Selected other comments from respondents (where not already reflected above)
inflated/undiscounted mean term of between 40 and 50 years, far beyond a reasonable projection of current complying investment returns. Moreover, not only were lifetime care schemes not previously insured by the for-profit sector, but when offered the opportunity to underwrite the NSW Lifetime Care Scheme during the political negotiations of 2005/2006 leading up to the introduction of the scheme, the collective insurance sector was prepared to underwrite only the frequency risk of the scheme, requiring to transfer the long-term liability risk back to the state after five years post injury. A similar arrangement was recently negotiated in the 2017 amendments to the NSW CTP scheme, which introduced a limited lifetime coverage for some benefits not covered by the lifetime care schemes. E. S4-John Walsh also submitted additional comments to the Board, which provide details of the legislative framework of NISS and reiterate that the “beneficial rights cannot be retrospectively amended” criteria in paragraph E13(b) of the DP is a key differentiating factor to identify ‘insurance-like’ arrangements. Therefore, the conclusion in Example 3A of the DP is incorrect (the additional comments are not reproduced here – see the submission in Agenda Paper 8.7). F. S5-icare provided a table explaining the key differences between an insurance contract and arrangement governed by legislature (the table is not reproduced here – see the submission in Agenda Paper 8.8). H. S5-icare provided the following table summarising the schemes it administer (again, the table is not reproduced here – see the submission in Agenda Paper 8.8). G. AASB staff observation: we note that, although not explicitly asked as a specific matter for comment, no respondents commented on the proposed operative date of annual reporting periods beginning on or after 1 January 2021.