TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
22 August 2019
9am – 2pm

Objective:
IASB Vice-Chair, Sue Lloyd (SL) attended the AASB TRG meeting to:

- discuss the Australian industry's views on the proposed amendments to IFRS 17 *Insurance Contracts* in ED/2019/4 (the ED);
- provide an update on global adoption of IFRS 17;
- provide an update on the IASB's Primary Financial Statements project; and
- discuss updates on Australian industry activities, including the Actuaries Institute and APRA.

ATTENDANCE	ORGANISATION
Anne Driver (Chair)	QBE
Stuart Alexander	Deloitte
Jane Clifford (on behalf of Fehraz Fallil)	iCare NSW
Jenna Cooke	Suncorp
Cassandra Cope	HCF
Brendan Counsell	EY
Regina Fikkers	PwC
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC
Charles Hett (via teleconference)	NZASB
Weldon Luo	ATO
Chris Maher	AMP
Ian Moyser	KPMG
Rachel Poo	QBE
Grant Robinson	AMP/ Institute of Actuaries IFRS 17 Implementation Task Force
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Rob Sharma	APRA
Richard Sheridan (guest)	IAG
Leong Tan	Swiss Re
Tony Tong (via teleconference)	Pacific Life Re
Jeroen Von Koert	AIA

AASB representatives	
Kris Peach	AASB Chair
Helena Simkova	AASB staff
Patricia Au	AASB staff

Note: These minutes provide a summary of discussion only and any views or interpretations do not constitute professional advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this document.

Topic	Attachment
IASB update on global adoption	**Attachment 1**
- SL provided an update on the global endorsement of IFRS 17. SL expressed the following specific comments and views on countries that have not yet formally endorsed IFRS 17: • South Korea – The local regulator has signalled that South Korea intend to adopt IFRS 17. SL expressed the view that South Korean entities appear to be some of the most progressed in the implementation of IFRS 17. This is likely due to the significant change in requirements compared to their current accounting practices. • China – Current accounting standards are closely aligned with IFRS Standards. China is in the process of incorporating IFRS 17 into their current accounting Standards. Entities in China are also very progressed in the implementation of IFRS 17. • European Union (EU) – The EU have a formal and complex endorsement process and it is therefore, not unusual for an IFRS Standard to take time to achieve formal endorsement – (e.g. the endorsement process for IFRS 9 as well as other Standards have taken longer than a year). European stakeholders have been keen for the IASB to make amendments to IFRS 17 – one of the key issues raised that has not yet been addressed is around the requirement for annual cohorts in IFRS 17. European stakeholders have expressed the view that annual cohorts should not be required to be applied in all circumstances[1]. Some stakeholders hope that the endorsement process will not be unduly delayed as they are concerned that delays may result in additional costs. • Japan – Listed entities may choose the GAAP to be applied to their financial statements, i.e. they may choose to apply IFRS accounting standards, and therefore, apply IFRS 17 as a result.	
Discussion of proposed amendments to IFRS 17	**Attachment 1**
- SL provided an overview of the IASB's approach to supporting implementation and the views expressed by investors / users: • The IASB expected the implementation of IFRS 17 to be a significant challenge globally due to the different practices currently adopted to account for insurance contracts across the different countries and jurisdictions. The IASB therefore, considered that there was a need to provide more support post-issue of IFRS 17 compared to other IFRS Standards. • The IASB conducted outreach with various stakeholder groups, including the investor community. Some of the 25 issues raised in the IASB October 2018 Board meeting (AP2D) were raised by investors. A key concern raised by investors was around the extent of	

[1] http://cfoforum.eu/downloads/CFO-Forum-IFRS17-Priorities-14Jun2019.pdf

optionality available in the Standard – e.g. the OCI option and options around transition approaches. Investors also supported the requirements for annual cohorts as they considered that it was important to provide an understanding for how profitability changes over time.

- SL provided a summary of the proposed amendments to IFRS 17 and members provided their views on each topic:
  - Please refer to Attachment 1 for a summary of the amendments discussed. The key discussion points are noted below:

Additional scope exclusions

- Members expressed support for the proposed amendment and considered it to be a pragmatic and reasonable solution.

Allocation of acquisition costs to expected contract renewals

- SL stated that some stakeholders in China had expressed the view that there is significant risk and judgement associated with estimating expected future renewals. They also considered that the requirement to perform an assessment of impairment is too onerous. Their view is that overall, the requirements of the proposed amendment are too costly and the costs outweigh the benefits. Therefore, these stakeholders are requesting for the proposed amendment to be optional. SL expressed the view that the IASB would not be keen on making the amendment optional because the IASB consider that the proposed amendment will provide a good depiction of the economics of the transaction, and users are unlikely to support the introduction of additional optionality.
- Members agreed with the intention of the proposed amendment. However, members expressed the view that the current wording in paragraph B35A does not appear to adequately capture the intended outcomes. Specifically, paragraph B35A requires directly attributable insurance acquisition cash flows to be allocated to the related group of insurance contracts as well as "expected renewals" of insurance contracts in that group. In some cases, entities may have expectation of future renewals but have no intention of recovering any of the initial acquisition costs from those future renewals – e.g. flat rate commission payable, regardless of whether the contracts relate to new business or renewals. Members considered that there is nothing in the Basis for Conclusions (BC) in the ED to indicate that the IASB intended for all acquisition costs to be allocated to future renewals, even where they are not expected to be recovered from those future renewals. In contrast, BC39 indicates that acquisition costs would only be deferred if expected to be recovered through future renewals. A member proposed that the wording of the proposed amendment is refined to appropriately scope out these scenarios. SL encouraged members to provide in their response to the ED suggestions of how the wording can be improved to articulate more clearly what was intended as expressed in the BC. A member considered that even though the proposed amendment is mandatory, different practices are likely to emerge on how the 'systematic and rational basis' of allocation in paragraph 28A of the ED is applied. Members agreed that the requirement for a 'systematic and rational' provides flexibility to enable sensible outcomes to be achieved.
- Some members considered that the proposed amendment may be difficult to apply on transition and requested for specific transition relief to be considered. SL stated that the transition implications had not been considered or discussed by the IASB but expressed the view that it was not an unreasonable point to raise.
- A member requested clarification on the level at which the impairment test should be performed – whether this is performed for each group of contracts (per group), or on the overall acquisition cost asset (collective). SL clarified that the impairment test is a collective test and acknowledged that more clarification could be added to the wording of the proposed amendment.

Attribution of profit to service relating to investment activities

- SL noted that when redeliberating this issue, the IASB was concerned that an amendment may result in potential disruption to implementation projects.
- Members generally expressed support for the proposed amendment. A member noted that there is a requirement for a 'positive investment return' and asked for clarification around the reason for the requirement. SL clarified that this reflects an intention to exclude instances where there is only a custodial service – e.g. a policyholder pays $100 to the insurer who will later refund $100 to the policyholder. The amendment is intended to capture instances where there is a service being performed by the insurer and the policyholder expects a return as a result. SL further clarified that while there is an 'expected' return, the outcome may differ from what was expected – the IASB did not wish to create prescriptive rules about what constitutes a 'positive investment'. Members suggested that it would be helpful to articulate the IASB's reasoning – this may be added in the BC.

Reduced accounting mismatches for reinsurance

- SL summarised the IASB's considerations when redeliberating the proposed amendment:
  - The IASB acknowledged the accounting mismatch that results from the current requirements in IFRS 17 and the link between the reinsurance contracts held and the underlying contracts they cover.
  - The IASB considered that the proposed amendment could provide more useful information as it does not remove the information disclosed on the onerous underlying contracts – the amounts relating to the reinsurance contracts held are not netted off the onerous loss but instead presented and disclosed separately. SL noted that this was a key consideration of the IASB.
  - Two restrictions were introduced in order for the amendment to apply: (1) the reinsurance contract held must provide coverage for a fixed proportion of every dollar of claims; and (2) the reinsurance contract held has to be entered into before or at the same time as the onerous underlying contacts. Stakeholders in China have expressed a strong objection for restriction no. (2).
  - The appeal of the proposed amendment is the simplicity of the mechanics – apply the fixed proportion recoverable from the reinsurance contract held to the amount of onerous loss recognised.
  - Most of the examples provided to the IASB when the issue was first raised were relating to proportionate reinsurance contracts. Non-proportionate reinsurance was only raised later in the process. The IASB was, therefore, of the view that in making proposed amendment this would address the issues raised by stakeholders.
- Members expressed the following views:
  - The proposed amendment is very limited in scope and excludes a significant proportion of reinsurance contracts in the market. For general insurers, the proposed amendment would apply in very limited circumstances.
  - The limitation of scope of the proposed amendment will reduce comparability across the different entities and reinsurance transactions.
  - The AASB TRG will be recommending a proposed amendment that may be applied consistently across all types of reinsurance contracts (proportionate and non-proportionate) by applying a simple methodology that allocates the full expected reinsurance recoveries to all expected underlying claims to determine a recovery percentage. The reinsurance amount to be recognised in profit or loss when the underlying onerous losses is recognised is the proportion of recoveries (the recovery percentage) that relate to those underlying losses recognised. This proposed methodology

to allocate the reinsurance recoveries to the underlying onerous loss does not involve the use of subjective judgement. The expected claims and reinsurance recoveries amounts are already required to be determined in order to apply the general measurement requirements of IFRS 17. SL asked if members would object to an additional requirement that the assumptions used to determine the expected total underlying claims and reinsurance recoveries in the reinsurance recovery percentage should be consistent with those applied for the purpose general IFRS 17 measurement. Members considered that it would be a reasonable requirement.

Simplified balance sheet presentation

- SL noted that the results of the IASB's outreach indicated that investors did not consider that there would be a significant loss of information due to this proposed amendment.
- Members expressed strong support for the proposed amendment but expressed a preference for the balance sheet aggregation to be at an entity level. Some members expressed the view that amending the balance sheet aggregation to an entity level would not result in a loss of useful information to investors but would result in a significant operational relief for preparers, especially for the general insurers.

Exclusion of the risk mitigation option

- Members generally agreed with the proposed amendment and considered that it does not have a significant impact for the Australian industry.

Deferral of effective date

- SL summarised the IASB's considerations when redeliberating the proposed amendment:
  - The reason for the proposed deferral is the uncertainty created by the proposed amendments to the Standard. The proposed deferral of the effective date was the first decision made by the IASB (as opposed to the last decision) because many preparers expressed the need for certainty in order to plan and request for budget approvals.
  - The proposed deferral by one year reflects the IASB's expectation that implementation efforts will continue during the ED period. Many stakeholders have expressed support for a deferral and some of these stakeholders had requested that the deferral would not be more than one year. There were also stakeholders who did not want a deferral because they were fairly advanced in implementation and considered that a deferral in the effective date would result in increased cost.
  - A key reason for the IASB's decision not to defer by more than one year is the consistency in application between IFRS 17 and IFRS 9. The IASB were keen to minimise the difference in the date of application of IFRS 9 between insurers and non-insurers. SL was keen on member's views as to whether they considered the alignment of IFRS 9 and IFRS 17 to be important – i.e. whether it would be easier to apply the two Standards at the same time.
- No members expressed a desire for alignment between IFRS 9 and IFRS 17 or an awareness that this was an issue across the Australian industry. Some members stated that their entities had already adopted IFRS 9.
- Members expressed support for the proposed deferral of one year. Many members would support an additional year of deferral. One member considered that an additional year will provide an opportunity for insurers to consider the implementation of IFRS 17 in the context of other strategic priorities so that they are fully integrated as opposed to implementing IFRS 17 as an overlay just to achieve compliance.
- SL emphasised that a willingness by preparers to dis-align IFRS 9 and IFRS 17 does not mean that a further delay would be considered by the IASB. However, the IASB would not

consider a further delay to IFRS 17 if IFRS 9 is also required to be delayed in order to maintain alignment between the two Standards.

- Some members highlighted that one of the challenges that is likely to emerge as entities ramp up implementation is resource constraints – this appears to be an issue that is currently faced by many Asian jurisdictions. A member also noted that for smaller entities, a possible challenge is in the availability of systems to deliver IFRS 17 compliance.

Additional transition relief

- SL stated that some stakeholders were of the view that the modified retrospective approach is too difficult to apply. The IASB have discussed the specific concerns of these stakeholders and have proposed specific additional transition relief as a result.
- Members were supportive of the transition relief relating to the acquisition of contracts in their claims settlement period but expressed a preference for the transition relief to be extended beyond transition to all future acquisitions of contracts in their claims settlement period. A member expressed the view that the current IFRS 17 requirements will result in different accounting (and possibly measurement models) for these contracts based on whether they were acquired or issued, even where acquisitions of these contracts were made with the intent to renew the business (not to generate revenue from the run-off of the claims).
- SL noted that the IASB is aware of this issue and acknowledged that the possibility of having to account for these contracts under the general model could be burdensome for an entity that applies PAA to its other insurance contracts. However, SL highlighted that one of the key aims of IFRS 17 is to increase consistency between insurers and non-insurers. Non-insurers have historically had to measure and account for acquired assets / liabilities based on information as at the date of the transaction. SL considered that it would be difficult to justify applying a different logic to account for insurance contracts.
- SL added that although the contract has not been changed by the acquisition, the accounting requirements in IFRS 17 reflects the different insurance risk / uncertainty undertaken by the issuer of the contract compared to the acquirer of that contract – the acquirer of the contract does not have the uncertainty about whether the claim will happen or not (which is the uncertainty faced by the issuer of the contract) but instead faces uncertainty about what the amount of claims is going to be. SL expressed the view that a change to the requirements around the accounting for these contracts would be a fundamental change.
- A member referred to IASB Transition Resource Group (TRG) September 2018 AP01 and asked if the principles discussed in that paper could be applied to provide a choice of whether to treat the liability relating to unsettled claims for those acquired contracts as remaining coverage or incurred claims. SL considered that the discussion in IASB TRG September 2018 AP01 does not support such a request because in the examples discussed, the insurance contract could be said to have two possible types of risks on inception: (1) whether the event will occur (e.g. whether the policyholder will be disabled); and (2) if yes, how much the insurer will have to pay in claims and for how long. The paper therefore, discusses two possible ways to determine the insurance risk: (1) the only insurance risk is whether the event occurs; or (2) there are two types of insurance risk – whether the event occurs and after that, how much will be paid. The paper concludes that judgement should be applied in those cases. However, in the scenario being discussed (acquisition of contracts in their claims settlement period), there is only one risk for the acquirer, being the uncertainty about how much the claims will settle for.
- Members acknowledged that a change will be a deviation from the existing framework but highlighted the practical difficulties that preparers would face to implement the IFRS 17 requirements in this area.

Other topics for discussion – Interim reporting

- Members expressed concerns around the exception to IAS 34 set out in paragraph B137 of the current IFRS 17 requirements. Members acknowledged that IFRS 17 made the exception because of concerns expressed by a group of stakeholders around complexity and cost. However, members highlighted that there are other stakeholders who consider the exception provided in paragraph B137 to be more complex to apply. A member expressed the view that the exception in paragraph B137 will result in reduced comparability because different outcomes will be achieved between an entity that performs interim reporting and an entity that does not.
- SL asked if members would prefer for the exception to be removed. Members expressed a preference for the exception to be removed.

Other topics for discussion – use of inception date interest rates to accrete interest on the CSM

- A member expressed the view that the AASB TRG (and the predecessor Insurance Advisory Panel) have raised the issue of inception date discount rates with the IASB in the past but the IASB TRG discussions over the last year have emphasised the impact of the issue. A member considered that the issue was most prominent where entities have long term reinsurance contracts that cover short term underlying contracts. The requirement to use inception date interest rates to accrete interest on the CSM will result in inconsistent discount rates being applied between the reinsurance contracts held and the underlying contracts they cover in those instances.
- SL confirmed that this was not an issue that was being considered by the IASB for amendment.

Other topics for discussion – support for IASB decisions

- Members expressed support for the IASB's decisions on a number of topics, including the following decisions:
  - not to remove the optionality around the application of the OCI solution;
  - not to change the level of aggregation requirements; and
  - no changes to prescribe a method for determining the risk adjustment for issuing entities as well as the consolidated Group which they are part of.

Next steps on IFRS 17

- SL discussed the IASB's planned next steps on the proposed amendments. The IASB plan to start their redeliberations immediately after the ED comment period closes.

Update on IASB Primary Financial Statements project	**Attachment 1**

- SL provided an update on the IASB's Primary Financial Statements project. The ED which is expected to be issued in Q4 2019 will include a set of proposals on:

  (1) Classification of P&L items
  - The ED will introduce required and defined subtotals in the P&L, such as operating profit.
  - The ED will require the entity's share of profit of associates and joint ventures to be split into two line items.
  - The ED proposals are not inconsistent with the presentation requirements in IFRS 17 – refer to page 28 of Attachment 1 for an illustration of the proposed new P&L for insurance entities.

  (2) Disclosure of Management Performance Measures (MPMs)
  - Investors consider that management performance measures are a good way of communicating an entity's performance. However, investors have expressed concerned about the level of transparency and consistency of MPMs.
  - The ED will require a note in the Financial Statements that discloses key MPMs with a reconciliation to the closest IFRS subtotal. The MPMs disclosed must be used in public communications with the market / investors.

- SL noted that the IASB is particularly interested in the feedback that may be received from the audit firms when the ED is issued as these measures are not currently subject to audits but will be under the new proposals. - Members noted the potential disruption to preparers and users of financial statements if the IFRS 17 changes were closely followed by additional changes from this project. Preference was for a consistent change date or for a significant gap between adoption of the IFRS 17 and changes emerging from the Primary Financial Statements project.	
Update on Australian industry activities in relation to IFRS 17	**Attachment 2**
Actuaries Institute (AI) - Members of the Australian AI Taskforce provided an update on the activities of the Taskforce. Please refer to pages 7 and 8 of Attachment 2 and notes from the previous AASB TRG meeting where this was also discussed. - SL noted that the IASB communicates with the International Actuarial Association (IAA) and the International Association of Insurance Supervisors (IAIS) and are keen on understanding the Actuarial community's view on the proposed amendments to IFRS 17. - The Australian AI Taskforce have released v1.1 their Information note (based on IFRS 17) and v1.2 incorporating changes proposed in October 2018 by the. They are currently drafting v2 for release in September 2019. - Members of the Australian AI Taskforce confirmed that they would be commenting on the proposals in the ED by reference to the AASB response and including their own responses to the extent they have additional issues. - Members of the Australian IA Taskforce confirmed that the IA have representation on the IAA Taskforce. The IAA have released an Exposure Draft of their Information note and are currently updating it for the feedback received. The IAA Information Note is expected to be finalised later this year. *APRA* - A member from APRA provided an update on APRA's proposed approach to IFRS 17. Please refer to Attachment 3 and notes from the previous AASB TRG meeting where this was also discussed. - A member asked about when the new capital requirements incorporating IFRS 17 are expected to apply. The member from APRA responded that this will be detailed in the update letter expected to be issued in September 2019 – it is expected that entities are likely to have to maintain two sets of data for a period of time, one set to report under the current APRA requirements and one set on an IFRS 17 basis for statutory reporting.	
Any other business	
- Members thanked SL for her time and insights provided at the meeting.	
End Meeting	