Australian Government
Australian Accounting Standards Board

TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
26 July 2019
8am – 10am

Objective:

- Discuss the approach for determining an Australian industry response to the Exposure Draft on Amendments to IFRS 17 (ED);
- Discuss submission to the AASB TRG on the treatment of unpaid premiums relating to past service; and
- Receive updates from the Actuaries Institute and APRA.

ATTENDANCE	ORGANISATION
Anne Driver (Chair)	QBE
Stuart Alexander	Deloitte
Patricia Au	AASB staff
Antony Claughton (guest)	Finity
Jenna Cooke	Suncorp
Cassandra Cope (via teleconference)	HCF
Brendan Counsell	EY
Chris Maher (via teleconference)	AMP
Alison Nanson	MLC / the Accountants and Actuaries Liaison Committee
Kris Peach (via teleconference)	AASB
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 (via teleconference)	APRA
Richard Sheridan (on behalf of Peter Grant)	Insurance Australia Group (IAG)
Helena Simkova (via teleconference)	AASB staff
Ayman Sobhan	Insurance Council of Australia
Warwick Spargo	RSM Australia
Leong Tan	Swiss Re

ATTENDANCE	ORGANISATION
Angus Thomson (observer) (via teleconference)	QBE
Owen Tong (observer)	BT Financial Group
Tony Tong (via teleconference)	Pacific Life Re
Glenn Treadwell (via teleconference)	NIB
Jeroen Van Koert (via teleconference)	AIA

Topic	Agenda paper
AASB response to the ED on Amendments to IFRS 17	**ATTM1, ATTM4**

- Members were reminded of the objectives of the AASB TRG (refer to page 2 of ATTM1).
- Members noted the deadline for submitting a response to the ED to the IASB of 25 September 2019. Members discussed the approach and timelines for producing the Australian response:
  - The response will be submitted by the AASB but will state that it is based on input from the AASB TRG.
  - The AASB TRG will target a deadline of 16 August 2019 for producing the draft comment letter in order to allow for revisions to address late comments / issues that may arise and to share more widely to obtain local and global feedback. The AASB TRG will recommend the draft letter to the AASB Board prior to submission to the IASB.
  - The deadline for comments to AASB ED292 (AASB equivalent of the IASB ED) is 30 August 2019 to allow time for the AASB to review any comments received and determine if they should be reflected in the submission to the IASB (if not already considered by the AASB TRG).
  - A member expressed the view that the AASB response should be targeted and focussed on the key issues that have consistently been raised to the IASB by the Australian industry, and any new issues that have resulted from the ED (e.g. unintended consequences that have arisen from the way the ED has been drafted). The member also considered that the response should acknowledge and consider the arguments for different views where they exist.
  - Members noted that individual entities can also submit responses directly to the IASB if they wish to do so. A member commented that entities may consider the AASB draft response to be a useful reference for producing their individual responses. Members agreed that the submission of consistent responses from multiple respondents (individual entities, industry bodies etc) is likely to be helpful for emphasising the key issues for the Australian industry.
- Members discussed how to approach the 25 issues that were raised in the IASB October 2018 Board meeting AP2D in the ED response. Members agreed that in addition to commenting on the issues arising from some of the IASB decisions, it was also important to express support for the IASB decisions that the industry agreed with, including on the topics for which the IASB had decided not to amend IFRS 17. The key items discussed are summarised below.

Please refer to attachment 'AASB TRG paper 26-Jul-2019_25 issues previously discussed and potential responses to ED-2019-4' for the proposed responses in respect of all 25 issues.

Reinsurance held

- Members agreed that a response was required on the ED in respect of Reinsurance, specifically on initial recognition of reinsurance where underlying contracts were onerous, as the ED does not have sufficiently wide scope to deal with the range of reinsurance contracts used in the Australian market. The reinsurance working group of the AASB TRG met on 25 July 2019 to discuss the approach for responding to the proposed amendments on reinsurance contracts held (ED paragraphs 62, 66A-66B, B119C-B119F and BC67-BC90). Members of the reinsurance working group are in the process of producing a draft response.

Contracts acquired in their claims settlement period

- Members were supportive of the transition relief in ED paragraph C9A to classify as a liability for incurred claims (LIC) a liability for settlement of claims incurred before an insurance contract was acquired.
- However, some members considered that the amendment should be extended to ongoing measurement, not just transitional application:
    - Members considered that the current IFRS 17 requirements to treat the liability for claims acquired in their settlement period as liability for remaining coverage (LfRC) is operationally challenging and may result in the general model being used for those acquired contracts (if they have long claims settlement periods) and the premium allocation approach (PAA) being applied to renewals of those contracts.
    - Members raised the issue that the current IFRS 17 requirements will result in subsidiaries acquired in a business combination applying a different treatment (continue to treat them as LIC) from the acquiring entity (which will have to treat them as LfRC) for those contracts. However, other members noted that different accounting by the acquirer vs acquired entities exists under current accounting.
- Some members expressed the view that the likelihood of the IASB deciding to amend IFRS 17 to extend the transition relief to ongoing measurement is low.
    - One member considered that the purpose of the existing IFRS 17 requirement is to achieve consistency between insurance and other industries. The member suggested that due to the low likelihood of change, it should not be an area of focus for the response to the ED.
    - Other members considered that although the IASB is unlikely to amend IFRS 17 for this issue, it may still be helpful to highlight the operational issues associated with the existing IFRS 17 requirements.
- It was agreed that a sub-group of the AASB TRG will produce a draft paper to highlight the issues with the current IFRS 17 requirements and support an extension of the transition relief provided in the ED to ongoing measurement. A final determination of whether it will be included in the AASB response will be made after circulation of the draft paper.

Treatment of accounting estimates made in interim financial statements

- A member noted that when this was discussed at the IASB TRG in September 2018, many IASB TRG members disagreed with the current IFRS 17 requirements in paragraph B137. The member also observed that the issue was raised late in the process and considered that it was because entities had not previously realised the implications of the requirement.

- Members agreed that this issue should be raised to the IASB as it is an instance where the IASB has made an exception to the general rule in IAS 34. Members also agreed that the issue should be discussed with IASB Board member, Sue Lloyd during her visit at the 22 August 2019 AASB TRG meeting.

Date of initial application

- Members supported the delay in the effective date of IFRS 17 but noted that the letter to the IASB dated 16 October 2018 from the Insurance Council of Australia (ICA) in conjunction with other global insurance bodies had requested for a 2 year delay whilst the ED proposes a delay of one year. Some members also observed that other global industry bodies and entities are still requesting for a two year delay. Members considered whether to express support for a two year delay in the response to the ED:
  - A member expressed the view that in order to support a two year delay, the response will need to clearly state what will be achieved by the additional year.
  - Other members considered that they were satisfied with a delay of one year as proposed in the ED. Those members expressed the view that it may be difficult to obtain support from the Boards of entities for project funding for an additional year of implementation.
  - Members agreed that the response should support the IASB's proposed delay of one year, but noted that it does not preclude industry bodies or entities from submitting separate requests to the IASB for a longer delay.

Use of locked-in discount rates to adjust the contractual service margin (CSM)

- A member noted that this topic has been raised as an issue to the IASB in the past, including in the Australian response letter dated 27 November 2018.
- Members agreed that the response to the ED should reiterate the concerns previously expressed on this topic and note the consequential accounting mismatches that may arise for long term reinsurance contracts held covering shorter underlying contracts which incept over the coverage period of the reinsurance contracts held.

Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued

- Members supported raising this issue in the response to the ED.
- One member commented that the Basis of Conclusions (BC) to the ED indicates that the IASB seems to have considered this topic thoroughly and questioned whether there are new arguments that can be raised in the response that have not already been considered by the IASB. Other members considered that there is still merit in highlighting the operational consequences of the decision not to amend IFRS 17 for this issue. Members agreed that this concern should be raised with the issue on locked-in discount rates as the consequences are inter-related.

Acquisition cash flows for renewals outside the contract boundary

- A number of questions were raised in respect of the possible consequences of the proposed amendment in respect of the allocation of acquisition cash flows to renewals:
  - A member questioned whether the proposed amendment may result in different outcomes between the PAA and general model;
  - A member noted that although the proposed amendment appears to be intended to address situations where high upfront commissions are paid for new contracts in anticipation of future renewals (ED BC35-BC39), ED paragraph B35A uses the term 'insurance acquisition cash flows' which may be read to encompass commissions as well as other internal costs;

  - A member observed that ED paragraph B35A requires the insurance acquisition cash flows to be directly attributable to a 'group' of insurance contracts for it to apply.
- It was agreed that a working group will consider whether there are possible issues with the way the proposed amendment is worded – in particular, whether it could result in unintended consequences.

Investment services: coverage units in the general model

- Members discussed issues raised by some Canadian stakeholders on whether the way the proposed amendment has been drafted could result in unintended consequences / reflect inconsistencies within the Standard. Members agreed that a working group will reach out to the Canadian stakeholders to better understand the possible issues and determine if they are likely to impact the Australian industry.

AASB TRG submission on the treatment of unpaid premiums relating to past service	**ATTM2**

- Some debate on the issue had taken place prior to the AASB TRG through email correspondence and this had narrowed the initial questions posed into two focussed areas:
  - Should unpaid premiums that relate to past coverage should be reflected within the LIC or LfRC?
  - Is the treatment consistent between the PAA and general model?
- Members raised the following as relevant paragraphs in IFRS 17 to consider in respect of the questions raised:
  - In respect of the measurement under the PAA, IFRS 17.59(b) states that an entity "shall measure the liability for incurred claims for the group of insurance contracts at the ***fulfilment cash flows relating to incurred claims***".
  - IFRS 17.40 which applies to the general model states that "the carrying amount of a group of insurance contracts at the end of each reporting period shall be…the liability for incurred claims, comprising the **fulfilment cash flows related to past service** allocated to the group at that date".
  - Appendix A of IFRS 17 defines the 'liability for incurred claims' as "an entity's obligation investigate and pay **valid claims for insured events that have already occurred**…and **other incurred insurance expenses**". (However, members observed that the definition of the LfRC in Appendix A also makes reference to valid claims for insured events, and neither definition makes reference to unpaid premiums.)
- The following key points were raised in the discussion:
  - Members observed that IFRS 17.59(b) defined the composition of the LIC more clearly than IFRS 17.40, which is the corresponding paragraph for the general model.
  - Members expressed the view that IFRS 17.59(b) appears to clearly exclude unpaid premiums from the LIC when applying the PAA. Members considered that there is an apparent inconsistency in IFRS 17 if 'fulfilment cash flows relating to past service' in IFRS 17.40 is read as being intended to refer to **all cash flows** that relate to past service, including unpaid premiums.
  - In practical implementation projects, no members had made the assumption that unpaid premiums would be included in the liability for incurred claims and, if applying the general model, had assumed that the residual unpaid premiums would remain in the liability for remaining coverage until paid.
  - Members considered that although IFRS 17.40 and IFRS 17.59(b) do not use the same specific terms, given that the PAA was intended to be an approximation to the general model, it may be inferred that the LIC under the general model should be measured using

the same approach that is applied under the PAA. Applying this interpretation will result in a consistent treatment between the two measurement models.

- Some members agreed to revert if this issue is considered at the global Big 4 forums.
- On a separate issue relating to premium receivables, a member noted that EFRAG have requested for premium receivables to be treated as a separate asset on the balance sheet (as opposed to being included within the insurance asset/liability) asked if other members considered it to be an issue:
  - The member considered that regulators treat assets differently from liabilities for solvency reporting and therefore, are likely to require premium receivables to be reported separately from the insurance asset/liabilities.
  - Another member noted that entities are likely to continue maintaining the information separately within their internal management systems in order to manage credit risk.
  - Members also observed that premium receivables is not the only component of the IFRS 17 insurance asset/liability that has traditionally been presented as separate assets – deferred acquisition costs is also presented within the insurance asset/liabilities under IFRS 17.
  - Members agreed that the proposed amendment in the ED on the presentation of assets and liabilities on the balance sheet has significantly mitigated the operational issues associated with the presentation of premiums receivables within the insurance asset/liabilities and there was no further need to raise the issue.

Agenda/specific topics to discuss with IASB Board member, Sue Lloyd on 22 August	

- Members agreed on the following topics to be discussed with Sue Lloyd during the AASB TRG meeting on 22 August 2019:
  - Australian industry concerns and proposals in respect of the IASB proposed amendments on reinsurance held;
  - Australian industry concerns on the treatment of accounting estimates made in interim financial statements;
  - Other ED points of disagreement (claims in their settlement period, inception date interest rates combined with long reinsurance contract boundaries);
  - Strong support for the IASB proposed amendment on the presentation of assets and liabilities on the balance sheet and other key areas supported;
  - IASB's observations and perspectives on global adoption;
  - Update on the Primary Financial Statements project and the possible implication for IFRS 17 implementation projects;
  - Update on Australian industry activities in relation to IFRS 17 – e.g. APRA, Institute of Actuaries Taskforce Information Note
- A member considered that the AASB TRG meeting on 22 August is an opportunity to brief Sue Lloyd on the concerns of the Australian industry in respect of key issues as well as emphasise areas where the industry is supportive of the IASB decisions.

Update on Institute of Actuaries (IoA) Taskforce	

- Members of the Institute of Actuaries Taskforce provided an update on the activities of the group:
  - The Taskforce is working on updating the Information Note (IN) to reflect the proposed amendments in the recently issued ED.

- A workshop with Appointed Actuaries, audit actuaries and some senior insurance accountants is scheduled on 19 August 2019 to determine discuss possible comments on the ED. The Taskforce has not yet determined if a separate submission to the IASB will be made, or if comments will be submitted to the AASB TRG to consider for inclusion in the AASB response. This will be determined once comments have been received and reviewed. It was agreed that where comments contradict the responses proposed by the AASB TRG, these should be raised for discussion at the AASB TRG. It was also acknowledged that where comments are consistent with those proposed by the AASB TRG, there is merit in providing a separate submission as the volume may be helpful to emphasise key issues.
- On global interaction, the Taskforce remains connected with the discussions and activities of the International Actuarial Association (IAA). The views reflected in the Australian IN have been shared with the IAA. The Taskforce is also represented on various working groups of the IAA.

APRA update on approach to IFRS 17	

- A member from APRA provided an update on their proposed next steps in relation to determining their approach to IFRS 17:
  - A governance framework has been set up within APRA for determining APRA's approach to IFRS 17.
  - An update letter is expected to be released in Q3 this year. The letter will provide an indicative view of APRA's proposed approach and timeline for consultation with the industry. APRA will be seeking feedback on the content of the letter as well as other emerging issues that should be considered by APRA in respect of IFRS 17.
  - A member asked if the proposed timing and process in the update letter expected to be consistent with a previous letter from APRA issued in November 2018. The member from APRA stated that the proposed approach has shifted slightly from the approach proposed in the November 2018 letter – the updated proposed approach will be outlined in the update letter.
  - A member asked about the timing of alignment of APRA frameworks with IFRS 17. The member from APRA stated that the IFRS 17 effective date is a consideration in forming the timeline of the consultation process. APRA is aiming to achieve a degree of alignment between IFRS 17, LAGIC refinements and the work on the PHI capital framework. The member also noted that APRA is aware of the different balance sheet dates across insurers and will include it in their consideration.
  - The update letter will be accompanied by a survey to assess the operational readiness of the industry. The member suggested that the survey will exclude the 23 insurers who were involved in an earlier survey ('participating insurers') which was released when IFRS 17 was first issued. However, other members suggested that the survey should be extended to all insurers as the responses provided by the participating insurers to the earlier survey are likely to have progressed / advanced since then.
  - Some members confirmed that various subgroups of the Institute of Actuaries Taskforce are in consultation with APRA. Two subgroups are currently in-force: a subgroup on the application of the variable fee approach (VFA), and risk adjustment focussing on life insurers. A member commented that the risk adjustment subgroup (and other future subgroups where relevant) should not be isolated to particular types of insurers (life vs general vs health) as IFRS 17 will need to be consistently applied across life, general and health insurers. A member confirmed that it was proposed at the last meeting of the risk

adjustment subgroup that the group should be extended to consider general insurance as well.	
Any other business	
Comments on the EFRAG draft response to the ED (ATTM3) - A member observed that the EFRAG response raises the issue of annual cohorts for mutualisation and questioned if this impacts friendly societies in Australia. A member expressed the view that it was unlikely to have a significant impact in the Australian industry. - Members noted that the EFRAG draft response express support for the proposed amendments on reinsurance held but observes that the proposed amendment excludes surplus reinsurance contracts. - Some members suggested that it may be helpful to have a discussion with other Standard setters globally in order to discuss the Australian proposed response on reinsurance held in order to understand if any stakeholders are submitting contradictory requests or are proposing narrower solutions, and if so, the reasons for their views.	
End Meeting	