AASB Insurance TRG meeting – 26 July 2019

Comparison of ED/2019/4 and the list of 25 IFRS 17 issues identified for consideration by the IASB in October 2018

The following table identifies the development of 25 issues identified by the IASB in October 2018, how they have been addressed in ED/2019/4 *Amendments to IFRS 17*, and the initial views of AASB TRG members at a meeting on 26 July 2019.

Topic	TRG response Nov-2018	ED/2019/4	Proposed response DISAGREE (as a whole or in part)
Measurement | **Reinsurance contracts held: initial recognition when underlying insurance contracts are onerous** [IASB Jan-2019: issue 12 of 25]	Support a change. One of the top two issues identified in Australia	Require 'proportionate' reinsurance contract gains and losses on underlying contracts already recognised to be 'matched' [62, 66A-66B, B119C-B119F & BC67-BC90]	(1) Support providing the exception for 'proportionate' reinsurance gains to be adjusted immediately when they offset underlying contract losses. (2) Also propose consistent accounting for non-proportionate reinsurance on the basis that these contracts are economically similar and, in some cases, result in the same loss mitigation as proportionate reinsurance. Notes: IASB sees a timing mismatch between the recognition of claims and the recognition of recoveries that is directly identifiable for proportionate reinsurance contracts, but not for other reinsurance contracts held. IASB argues that, for other reinsurance contracts held, the claims that cause the loss do not have known recoveries [BC81]. IASB's reasoning seems inconsistent with the extent to which IFRS 17 accounting already relies on making reasonable estimates about uncertainty. The IASB's whole focus is on claims cash flows, rather than any other fulfilment cash flows included in contract measurement [BC79-BC80]. Consider raising whether non-proportionate claim handling costs would be non-adjustable for proportionate reinsurance contracts or whether the non-proportionality of claims handling costs would affect whether reinsurance is considered 'proportionate'. **Response to be drafted by the AASB TRG – Reinsurance working Group – Tony Tong/ Rachel Poo (Grant Robinson/ Brendan Counsell & Chris Noone/Benoit Laganiere to provide supporting examples)**

Topic	TRG response Nov-2018	ED/2019/4	Proposed response DISAGREE (as a whole or in part)
Measurement | **Business combinations: contracts acquired during the settlement period** [IASB Dec-2018: issue 11 of 25]	Support a change but not considered one of the top two issues in Australia	No change to IFRS 17, except grandfathering on transition [BC162]	Support transition action on this issue and agree with the grandfathering for contracts recognised before adopting IFRS 17 [BC162] (issue 24 of 25 below). Raise related post-transition issue again for IASB consideration as this was identified in AASB TRG as significant issue to be resolved. Want insurers to be able to recognise as LIC all contracts acquired, to the extent they are in their settlement periods. This would result in greater comparability with LIC arising on contracts that were originally written by the insurer. Presently, IFRS 17.B5 regards adverse development of claims as 'coverage' and creates potentially inconsistent accounting treatments for identical contracts. Reference topic 3 issued to IASB March 2018. TRG acknowledged that, in principle, similar issues arise for banks acquiring loans in a secondary market; however, IFRS 17.B5 completely mis-identifies the accounting relevant to the lifecycle stage of a contract acquired during settlement. TRG considered whether to support ED view on the basis of consistency with the ED/2019/4 proposal that contracts acquired outside an IFRS 3 business combination are not to be accounted for as if acquired when the business combination occurs. TRG noted that we should highlight the operational difficulties. **Response to be drafted by Jenna Cooke/ Grant Robinson / Scott Hadfield and circulated for comment. A final determination on submission to be made after circulation. OK to include different views/basis of views i.e. those in favour vs not.**
Interim financial statements | Treatment of accounting estimates [IASB Dec-2018: issue 19 of 25]	Agree no change is required; but consider the IAS 34 override in IFRS 17 should be permitted (not required)	No change to IFRS 17 on contravention of IAS 34 [BC214-BC216]	Agree that the exception from IAS 34 should not be extended to internal interim reports [BC215]. Remain concerned that the IFRS 17.B137 contravenes the principle in IAS 34.28 (that the frequency of an entity's reporting shall not affect the measurement of its annual results) to the detriment of users. Acknowledge that some insurers may find it burdensome [BC214] to recalculate interim amounts, but have a strong preference for permitting the exception from IAS 34, rather than forcing all insurers to contravene IAS 34. This is consistent with past correspondence. **Draft AASB TRG proposed ED response for circulation - Angus Thomson/ Ian Moyser.**

Topic	TRG response Nov-2018	ED/2019/4	Proposed response DISAGREE (as a whole or in part)
Measurement | **Use of locked-in discount rates** to adjust the contractual service margin [IASB Dec-2018: issue 4 of 25]	Support a change	No change to IFRS 17 [BC186-BC188]	Have consistently campaigned against locked-in rates, but see little chance of fundamental change. Nonetheless, in principle, we remain fundamentally opposed to the IASB's reasoning in BC196 because it overrides the logic of insurance liabilities being current value measures. Note that locked-in rates continue to give rise to adverse consequences. As acknowledged in BC183, when initial discount rates on cohorts of underlying contracts are different from the initial discount rate for a multi-year reinsurance contract, accounting 'differences' arise. Disagree with IASB's distinction in BC182 and BC183 between accounting mismatches 'differences' that are not accounting mismatches. They are both a product of inconsistent measurement rules and are, therefore, both accounting mismatches TRG agreed that we would respond to IASB reiterating our concern with this aspect of the standard and the consequent for long term RI held as a result of this approach and the IASB/TRG approach to RI contract boundary issues as the combination of approaches creates this most recently identified mismatch. **Draft AASB TRG response – Richard Sheridan / Ian Moyser (issues 4 and 14)**
Measurement | **Reinsurance contracts held: expected cash flows arising from underlying insurance contracts not yet issued** [IASB Dec-2018: issue 14 of 25]	Support a change but not considered one of the top two issues in Australia	No change to IFRS 17 [BC180-185]	Understand that the logical extension of treating insurance contracts and reinsurance contracts separately is that expected future cash flows related to unwritten underlying contracts will be factored into reinsurance contracts [BC181]. However, it seems incongruous to recognise expected cash flows that depend on contracts that don't exist. There is the potential for material volatility due solely to changing accounting estimates, particularly for insurers that have long-term reinsurance contracts covering annual underlying direct contracts. That material volatility could have no economic basis and be misleading to users. **Concern to be raised in issue 4 of 25 above and also TRG noted that we should highlight the operational difficulties.**

Topic	TRG response Nov-2018	ED/2019/4	Proposed response AGREE
Presentation in the statement of financial position | **Separate presentation of groups of assets and groups of liabilities** [IASB Dec-2018: issue 15 of 25]	Support a change. One of the top two issues identified in Australia	Require separate presentation of insurance and reinsurance assets versus liabilities at portfolio level (rather than group-level) [78-79 & BC91-BC100]	Strongly support on the basis that: ~ changes to systems to enable group-level presentation would impose significant costs [BC95]; and ~ no useful information would be lost by using a portfolio-level presentation [BC96]. In general, regard separately presenting insurance assets and liabilities as potentially misleading for users in a general insurance context. In particular, under the PAA, an asset could arise simply due to deferred premium payments, and an asset classification is potentially misleading for users.
Level of aggregation of insurance contracts [IASB Mar-2019: issue 2 of 25]	Agree that no change is required – subject to addressing the concerns in issue 15 of 25 above	No change to IFRS 17 [BC164-BC179]	The main concern was the presentation issue addressed at Issue 15 (above). Accept the various levels of granularity that IFRS 17 requires to be applied for recognition and measurement purposes. Note it is not expected to be a significant issue for Australia
Measurement | **Acquisition cash flows for renewals outside the contract boundary** [IASB Dec-2018: issue 3 of 25]	Support a change but not considered one of the top two issues in Australia	Require deferral of acquisition costs related to renewals [28A-28D, 105A-105C, B35A-B35C & BC31-BC49]	Agree with the deferral of acquisition cash flows as assets when they are expected to give rise to contract renewals as a pragmatic approach that will provide a more relevant allocation of costs and, therefore, more useful information to users. Note the requirement is mandatory and there could be inadvertent capture of acquisition costs on general insurance where the administration costs upfront are higher than renewal and there is an assumption of renewal/retention. Consider if comment warranted or not. **Potential issue to be assessed through a sub group (Brendan Counsell/ Ian Moyser/ Grant Robinson/ Jeroen van Koert/ Jenna Cooke/ Alison Nanson/ Angus Thomson).**
Effective date | **Date of initial application of IFRS 17** [IASB Nov-2018: issue 20 of 25]	N/A – IASB had tentatively agreed to defer	One-year deferral of IFRS 17 to 2022 [C1 & BC110-BC118]	Support one-year deferral, which is currently considered adequate to: ~ implement IFRS 17 ~ restart aspects of implementation that are currently on hold pending the likely amendments from ED/2019/4. TRG agreed to raise with Sue Lloyd in August concerns about presentation changes made for IFRS 17 that might need to be reworked for changes arising from IASB's Primary Financial Statements project (see Table at end of paper).
Effective date | **Temporary exemption from applying**	N/A – IASB had tentatively agreed to defer	One-year extension of IFRS 9 exemption to 2022 [C1 & BC110-BC118]	Support this extension being in line with the mandatory application date of IFRS 17 on the basis that business models may need to be re-assessed and

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IFRS 9 [IASB Nov-2018: issue 22 of 25]			could, therefore, affect IFRS 9 measurement approaches adopted (or revised) on applying IFRS 17.
Scope of IFRS 17 | **Loans and other forms of credit that transfer insurance risk** [IASB Mar-2019: issue 1 of 25]	Support a change	Scope exclusions for credit cards and loans that include insurance cover not underwritten by policyholder [7(h), 8A & BC9-BC30]	Support these scope exclusions because the insurance cover is essentially an adjunct, with the main focus of these products being customer finance [BC16]. (Keeping the insurance aspects of these contracts within IFRS 17 would have created cost for little or no benefit.)
Measurement | **Subjectivity | Discount rates and risk adjustment** [IASB Dec-2018: issue 5 of 25]	Agree no change is required	No change to IFRS 17 [BC186-BC192]	Agree with rejecting a rule-based approach to discount rates and risk adjustments [BC187] due to the wide variety of contract forms, terms and conditions. Concur with IASB reasoning for rejecting more prescription to avoid implementation disruption [BC188].
Measurement | **Risk adjustment in a group of entities** [IASB Dec-2018: issue 6 of 25]	Agree no change is required	No change to IFRS 17 [BC189-BC192]	Agree based on both the reasons identified for issue 5 of 25 above.
Presentation in the statement(s) of financial performance | **OCI option for insurance finance income or expenses** [IASB Dec-2018: issue 17 of 25]	Agree no change is required. This would disrupt implementation projects significantly	No change to IFRS 17 [BC200-BC202]	Favour the presentation of the impact of changes in discount rates in profit or loss; however, note some insurers would presumably find the OCI option useful if they apply FVOCI to assets backing insurance liabilities. Concur with the IASB that entities within the same jurisdiction with a similar business model are likely to make similar accounting policy choices because they are likely to issue similar contracts and adopt similar asset strategies for those contracts. Hence, they are likely to remain comparable [BC202]. We believe this optionality will allow insurers to more accurately reflect their business model.
Measurement | **PAA: premiums received** [IASB Dec-2018: issue 9 of 25]	Implementation challenges will be mitigated if issue 15 of 25 is addressed	No change to IFRS 17 [BC98]	Agree with no change since it would mean the PAA no longer approximates the general model [BC98]. However, note that additional (non-IFRS) information is likely to be needed to accompany statutory financial statements to meet the needs of users on the levels of risk being carried and information for use in a number of important performance ratios (including ratios related to premium written).
Presentation in the statement of financial position | **Premiums receivable** [IASB Dec-2018: issue 16 of 25]	Implementation challenges will be mitigated if issue 15 of 25 is addressed	No change to IFRS 17 [BC98]	Refer to comments on issue 9 of 25 above.

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Measurement | **Business combinations: classification of contracts** [IASB Dec-2018: issue 10 of 25]	Agree no change is required	Account for contracts acquired in business combinations under IFRS 3 as if acquired at date of combination (rather than for all acquisitions) [B93 & BC151]	Support on the basis that business combinations under common control (BCUCC) and other acquisitions and transfers should not be accounted for as if acquired on BCUCC or transfer [BC151]. BCUCCs or transfers may occur simply as part of a restructuring and it could pose an unnecessary cost to have to presume contracts are acquired at the time of a BCUCC or transfer.
Measurement | Contractual service margin | **Investment services: coverage units in the general model** [IASB Jan-2019: issue 7 of 25]	Support a change	Require CSM to represent insurance and investment services when relevant [44-45, 109, 117(c)(v), B119-B119B & BC50-BC66]	Agree with clarifying that the CSM should include future expected investment services (as well as future insurance services) whenever relevant (that is, whether or not the contracts have direct participation features). This is necessary to enable insurers to faithfully represent the investment services they provide in the relevant periods. Note this is particularly important because, later in their lifecycle, some 'insurance contracts' become substantively investment-only contracts and IFRS 17.B25 prohibits them from being reclassified out of IFRS 17. If CSM also represents investment services, a relevant portion of CSM is available to be allocated to later periods in the lifecycle of such a contract. Whilst in principle agree with change noted potential wording inconsistencies or consequences. Also TRG discussed considering issues raised from Canada on this issue – in particular, whether there are other services to include in the CSM. **Potential issue to be assessed through a sub group (Brendan Counsell/ David Rush/ Grant Robinson/ Briallen Cummings/ Stuart Alexander).**
Defined terms | **Insurance contract with direct participation features** [IASB Dec-2018: issue 18 of 25]	Not expected to have a significant impact in Australia	No change to IFRS 17 [BC209-BC213]	Agree with not extending the definition to contracts that don't contractually specify the policyholder participates in a share of a clearly identified pool of underlying items (the criterion in IFRS 17.B101(a)) because it would otherwise be difficult to substantiate that an insurer is providing substantially investment-related services.[BC212]. Also suggest the IASB to reform its use of language in IFRS 17. The IASB discusses the accounting applying to contracts providing investment services using the term 'variable fee approach' and it is confusing that the term is not used in IFRS 17 or ED/2019/4. Note it is not expected to be a significant issue for Australia.
Measurement | Contractual service margin: **limited applicability of risk mitigation exception** [IASB Jan-2019: issue 8 of 25]	Not expected to have a significant impact in Australia	Extend scope of risk mitigation exception to financial risk changes mitigated by reinsurance contracts held [B116 & BC101-BC109]	Agree based on the proposal helping to mitigate accounting mismatches in affected jurisdictions [BC105]. Note it is not expected to be a significant issue for Australia.
Measurement | **Reinsurance contracts held: ineligibility for**	Not expected to have a significant impact in Australia	No change to IFRS 17 [BC213]	Agree with not extending the application of the variable fee approach on the basis that reinsurance contracts provide insurance coverage and do not provide substantially investment-related services [BC213].

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the variable fee approach [IASB Jan-2019: issue 3 of 25]			Note it is not expected to be a significant issue for Australia.
Effective date | **Comparative information** [IASB Feb-2019: issue 21 of 25]	Agree that no change is required	No change to IFRS 17 [BC117]	Agree that deferring the effective date is the best course of action. A lack of comparative information in the period of first adopting IFRS 17 would deprive users of helpful information [BC117].
Transition | contracts acquired in settlement period: further modifications [IASB Feb-2019: issue 24 of 25]	Support a change	Contracts in settlement period recognised as LfIC on transition to IFRS 17 when there is no reasonable and supportable information to apply retrospective approach [C9A & BC120-BC124]	Agree with entities regarding that part of a contract in its settlement period on transition as part of the LfIC (not LfRC) [BC121]. Also see issue 11 of 25 above.
Transition | Optionality [IASB Feb-2019: issue 23 of 25]	Agree that no change is required	No change to IFRS 17 [BC134-BC146]	Agree that no further transition options are needed in view of proposed deferral of IFRS 17 and extension of IFRS 9 application.
Transition | Fair value approach: OCI on related financial assets [IASB Feb-2019: issue 25 of 25]	Agree that no change is required	No change to IFRS 17 [BC137-BC138]	Agree the existing transition simplification is adequate, which allows an insurer to assume the amount of insurance finance income or expenses in OCI is nil [BC138].

<table>
<tr><th colspan="5">Primary Financial Statements project – possible impacts</th></tr>
<tr><td>Additional sub-totals</td><td colspan="2">‘Investing’ and ‘financing’ sections</td><td>Gains and losses on hedging instruments</td><td>ED/2019/4 submission</td></tr>
<tr><td>In statement of financial performance show:
~ ‘operating profit’
~ ‘operating profit and the share of profit or loss of integral associates and joint ventures’ (a new notion of ‘integral versus non-integral’ will be proposed)
~ ‘profit before financing and income tax’.</td><td colspan="2">For most types of entities, separate financing and investing sections are proposed in the statement of financial performance.
However, special requirements would apply to ‘financial entities’, which include insurers. For insurers, the following would be in the ‘operating’ section (on the basis that these are all part of ‘main business activities’), rather than the financing and investing sections:
~ income from cash and cash equivalents
~ insurance finance income or expenses
~ investment income and expenses.</td><td>Gains and losses on hedging instruments are presented in the:
> operating section, if used to manage risks relating to main business activities
> financing section, if the instrument is used to manage risks relating to the entity’s financing activities
> investing section in all other cases
Incremental expenses related to an entity’s investments in the investing section.
However, it’s not clear whether there are special requirements for ‘financial entities’.</td><td rowspan="3">It is not clear how these potential new requirements would impact on the presentation requirements in IFRS 17, for example:
~ ‘insurance service result’; and
~ ‘insurance finance income and expenses’.
Indications are that they could be promulgated with mandatory application in 2023.
Accordingly, insurers could find themselves adjusting their income statements in two consecutive years (once for IFRS 17 and again for PFS).
The costs could be substantial and concerns about timing should be raised in our submission on ED/2019/4.

The IASB’s PFS decisions are a mix of principles and specific presentation requirements.

Concerned that developing specific presentation requirements in isolation of a recognition and measurement project is means they cut across existing requirements for specific types of entities (such as insurers).</td></tr>
<tr><td colspan="2">Management performance measures (MPM)</td><td>Cash flows</td><td>Principles of aggregation and disaggregation</td></tr>
<tr><td colspan="2">MPM are: ‘subtotals of income and expenses that are used in public communications with users of financial statements, outside financial statements, and which, in management’s view complement IFRS-defined totals or subtotals in communicating an entity’s performance’.
MPM can only be presented in notes and must be reconciled to the most relevant sub-total in the statement of financial performance.
An explanation would be required about how MPM are determined.
Ratios are not MPM.
EBITDA (and similar) are not MPM.</td><td>In the statement of cash flows:
> Dividends paid will be required to be classified as financing cash flows
> Interest incurred will be required to be classified as financing cash flows only for ‘non-financial entities’.</td><td>> Items that share similar characteristics should be classified and aggregated together
> Items that are dissimilar from other items should not be combined with other items and should be separated or disaggregated
> Aggregation and disaggregation in the financial statements should not obscure relevant information or reduce the understandability of the information presented and should also contribute to a faithful representation of the items presented.</td></tr>
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