Australian Government
Australian Accounting Standards Board

TRG Minutes

Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
23 March 2020
9am – 11am

Objective:

- Discuss the results of the survey issued by APRA in October 2019 and APRA's proposed next steps for integrating AASB 17 into the capital and reporting frameworks.
- Update from the ATO on the potential impact of AASB 17 on taxation.
- Discuss two submissions on implementation questions raised and any actions required:
    - The interaction of IFRS 17.B65 (composition of the fulfilment cash flows) with other accounting standards; and
    - The treatment of acquisition cash flows that relate to future contracts.
- Discuss the IASB's responses to the 25 areas of concerns raised in the IASB October 2018 Board meeting and the proposed industry next steps in relation to these topics.

Topic	Agenda paper
Industry preparedness – APRA survey results	**ATT1 & ATT2**

In October 2019, APRA issued a request for information (RFI) on the operational readiness of insurers to implement AASB 17. A member from APRA provided an update on the survey results issued on 20 February 2020 [ATT1]. The key points are as follows:

RFI results

- The RFI received a high response rate of 87% (out of a total of 145 entities).
- Most entities have undertaken a very low level of implementation activity. APRA is engaging with entities who have not commenced any implementation activity (2% of survey respondents). APRA encourage entities who have undertaken no or a low level of implementation activity to accelerate their progress towards operational readiness, but also acknowledge recent developments that may impact this such as COVID-19 and the recent decision by the IASB to defer the effective date of IFRS 17 to 1 January 2023.
- APRA emphasised that well progressed entities featured an established project with good governance and the ability to manage bottlenecks and expedite issues where needed.
- A member expressed the view that some of the respondents may consider that they are on track to achieve readiness by the required implementation date although the RFI results indicate that those entities have undertaken a low level of implementation activity. The member suggested that APRA perform a further analysis of the responses with specific companies to understand the reasons for some of the responses received.

- Respondents have identified that the key areas expected to be impacted by AASB 17 are business planning and forecasting, expense and cost allocation and KPIs and performance reporting. The member from APRA considered that the prominence of other areas of impact identified by a smaller number of respondents such as capital management, risk management and reinsurance may change over time.
- At this stage, APRA does not have enough information to conclude on the possible capital and earnings impacts of AASB 17 as few entities are able to provide the required quantitative information.

Next steps

- APRA's intention is to issue a discussion paper in H2 2020 as communicated in the letter to the industry dated 27 September 2019.
- APRA intends to issue another RFI in August and expects to receive a higher rate of responses than the previous RFI. APRA intends to benchmark responses against previous surveys in order to track entities' implementation progress over time.

> **Update subsequent to meeting**
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> On 23 March 2020, APRA issued a media release titled '[APRA adapts 2020 agenda to prioritise COVID-19 response]'. In light of the recent COVID-19 situation, APRA has announced the suspension of the majority of its planned policy initiatives and all substantive public consultations until 30 September 2020. Further details on any adjusted timeframe will be provided in due course.

- APRA will consider the IASB's recent decision to defer the effective date of IFRS 17 to 1 January 2023 in determining the date for adoption of the new prudential and reporting standards.
- Some members asked if APRA has considered how the impacts of COVID-19 on implementation activities, in particular, the possibility of implementation project resources being diverted to other business critical activities, may impact the timelines communicated by APRA in September 2019. The member from APRA acknowledged that entities are responding to the impacts of COVID-19 as a matter of high priority and noted that APRA will take this into consideration and monitor developments as it progresses through the process. A member suggested that APRA obtain feedback from entities on the extent to which implementation activities are impacted by COVID-19.
- A member asked about the expected level of commitment required to complete the pilot data collection information (separate to the RFI on implementation readiness) APRA is requesting from insurers (refer last bullet point on slide 11 of ATT2 – APRA Presentation on Survey). The member from APRA responded that APRA had not yet determined the level of quantitative information that will be requested but is likely to ask for entities to provide an AASB 17 pro forma profit or loss, balance sheet and liability roll forwards on a best efforts basis. Members suggested that it will be helpful for entities to understand the extent of information that will be requested by APRA in the upcoming pilot data collection as soon as possible.

Update from ATO	
A member from the ATO provided an update on its status with regards to determining the impact of AASB 17 on taxation:	

- Treasury is leading the policy and consultation on the integration of AASB 17 into taxation laws. The role of the ATO is to support Treasury on this matter and provide advice on tax issues with regards to the expected changes brought by AASB 17.
- No announcements have been made on whether AASB 17 will result in a change to income tax laws. The ATO have been having discussions with clients on the potential impacts of AASB 17 but no determinative comments can be made in the absence of an official policy on the impact of AASB 17 on taxation laws.
- A member asked about the expected timeline for determining the impact of AASB 17 on taxation. The member from ATO responded that Treasury are waiting for additional data to inform their deliberations – limited information was received in response to the discussion paper that was issued last year. Treasury may leverage the data that will be obtained by APRA from the upcoming RFI to facilitate a better understanding of the potential impacts of AASB 17 – in particular, acquisition costs is one of the key areas of interest. A member asked if ATO/Treasury will engage with APRA to ensure that the RFI captures adequate information to enable it to be leveraged. The member from the ATO responded that the ATO and Treasury are not currently engaged with APRA on their process, however, Treasury will issue an additional request if information that is not captured in the RFI is required. A member suggested that the ATO and Treasury should consider working with APRA to ensure the adequacy of information to be captured in the RFI to avoid the need to issue an additional RFI.

Paper for discussion – Taxes and expenses in fulfilment cash flows	**ATT3**

The preparer of the submission provided a summary of the paper:

- The submission relates to the composition of the ‘fulfilment cash flows’ (FCF) in IFRS 17.B65 and their interaction with other accounting standards or interpretations. Specifically, the questions in the submission relate to: (Q1) how transaction-based taxes are reflected in the FCF and (Q2) how to treat expenses which arise from assets and liabilities for which recognition is driven by other accounting Standards (not IFRS 17).

The key points discussed are as follows:

Q1 How transaction-based taxes are reflected in the FCF

- The submission questions how the requirement in IFRS 17.B65(i) to include transaction-based taxes in the FCF align with AASB Interpretation 1031.
- AASB Interpretation 1031 requires receivables and payables to include GST – a member expressed the view that ‘receivables’ and ‘payables’ in Interpretation 1031 should be interpreted broadly, such that it is not just limited to an IFRS 9 receivable but insurance liabilities could be a relevant payable which should include the relevant GST amounts. Applying this view, GST amounts arising from insurance contracts should not be presented as separate receivables/payables outside of the insurance liabilities.
- The member considered that when applying the requirements in practice, entities are likely to continue to record GST amounts in separate general ledger accounts and roll these up into the insurance liability for presentation and disclosure in the financial statements.
- Another member expressed the view that IFRS 17 has a different purpose to Interpretation 1031, in that Interpretation 1031 is clarifying that GST amounts collected as part of receivables and payables should not be separated from those receivable / payable amounts whilst the purpose of IFRS 17.B65 is to specify what cash flows should be included in the insurance liability. The member also considered that as IFRS 17 was issued more

recently than Interpretation 1031, IFRS 17 will override the Interpretation 1031 to the extent there are inconsistencies between them.

- IFRS 17.B123 and B124 states that insurance revenue clearly excludes transaction-based taxes collected on behalf of third parties. Equally, these transaction-based taxes would not give rise to insurance expenses as the amounts receivable and payable would net to nil. A member asked about the treatment of GST amounts that are not fully recoverable from the tax authorities. Another member expressed the view that the amount (or portion of GST) that is not recoverable would not be a 'transaction-based tax collected on behalf of a third party' and would therefore, be recognised as an insurance expense in profit or loss.

Q2 How to treat expenses which arise from assets and liabilities for which recognition is driven by other accounting Standards (not IFRS 17)

- A member expressed the view that the term 'cash flows' in IFRS 17 does not necessarily refer to actual cash but could include non-cash items such as the change in balance sheet carrying values of other attributable items such as leases.
- Other members considered that where attributable cash flows are accounted for on the balance sheet applying other accounting Standards (e.g. leases, property, plant and equipment, intangible assets), these would not be included or reclassified into the insurance liability – however, the expense component in profit or loss (i.e. depreciation or amortisation of these assets) would be recognised within insurance expense if they are attributable to fulfilling insurance contracts. Applying this view will result in a difference between the insurance expense amount disclosed in profit or loss and the amount disclosed in the roll-forward reconciliations required by IFRS 17.100 and IFRS 17.103 as the expense items discussed would not feature in the opening or closing balance of the insurance liability on the balance sheet or in cash movements. A separate line item may therefore be required within the insurance liability reconciliation to reconcile the movement in insurance liability recognised in insurance expense to the total insurance expense recognised in profit or loss. A member considered that this view is consistent with the application of other accounting standards such as inventory and IFRS 15 whereby the underlying item is accounted for under the relevant Standard on the balance sheet but the costs are recognised in profit or loss based on the activities to which they are attributed.

Next steps

Members agreed that no submission will be made to the IASB on this topic.

Paper for discussion – Asset for Insurance acquisition cash flows	**ATT4**

The preparer of the submission provided a summary of the paper:

- The questions raised in the submission relate to the decisions of the IASB made in its December 2019 and January 2020 Board meetings on the treatment of acquisition cash flows that relate to future contracts not yet written. The two questions are:
  - Q1) when applying IFRS 17.28A (in the Exposure Draft), does the entity have the option to immediately expense the full acquisition costs, including the portion that relates to future renewals, where the entity applies PAA to the group of insurance contracts that gave rise to those costs? This will result in no asset being recognised for acquisition costs that relate to future renewals.
  - Q2) does the transition approach that is applied to measure the asset for acquisition cash flows relating to future contracts need to be consistent with the transition approach applied to the group of insurance contracts that gave rise to those acquisition costs? *Note: the asset for acquisition cash flows would relate to future groups of contracts not yet*

issued and are therefore, part of future groups that are separate from the group of insurance contracts that gave rise to those costs.

The key points discussed were as follows:

Q1 Option to expense cash flows when applying the PAA

- A few members considered that the way in which IFRS 17.28A is worded appear to support the view an entity may adopt the option to expense **all acquisition cash flows** that arise from the group of insurance contracts (not just the portion that relates to the issued group of contracts) – those acquisition costs would only need to be allocated to future renewals (and an asset recognised for those costs) if the option is not applied.
- A member asked about why the IASB might have intended for IFRS 17.28A to be applied as described above. Another member expressed the view that the approach described aligns more closely with the requirements in the issued version of IFRS 17 (pre-Exposure Draft). The member also considered that an inability to write-off the portion of acquisition costs that relate to future contracts will bring operational complexity, especially when measuring the asset on transition.
- A member considered that the ability to write-off the full acquisition costs may be seen to contradict the IASB Board's reasoning for requiring the allocation of acquisition costs to future contracts which is to provide more useful information to users of financial statements. Another member pointed out that the ability to write-off the acquisition costs is an option, and is not mandatory. Another member added that the option to write-off is limited to groups of contracts which apply the PAA **and** have a coverage period of 12 months or less.
- Members discussed whether to request the IASB to provide further clarity in this area when drafting the final version of the Standard. Members agreed that this would not be raised with the IASB as any modifications to the words of the Standard may lead to unintended consequences. Members considered that the words as currently drafted in the Exposure Draft provide sufficient clarity to enable preparers to achieve a sensible outcome.

Q2 Transition approach to be applied to measure the asset for acquisition cash flows

- The transition approach to be applied (full retrospective, modified retrospective or fair value) is determined by group of contracts. Contracts in different groups may apply different transition approaches. However, the same transition approach must be applied to all contracts in the same group. The preparer of the submission asked for member's views about whether applying the modified approach to measure the asset for acquisition costs that relate to future contracts when the group of insurance contracts that gave rise to those costs apply the fair value approach reflects the intention of the Standard.
- A member expressed the view that the transition approaches on the measurement of acquisition costs set out how to value both the portion of acquisition costs that relate to existing contracts already issued and the portion of acquisition costs that relate to future contracts (that need to be recognised as an asset for acquisition costs). Therefore, practically, the same transition approach would be applied to value both the portion that relates to existing contracts and the portion that relates to future contracts in most cases.
- A member noted a related issue that was raised with the IASB on this topic which is around the inconsistent outcomes that result from the modified retrospective approach and the fair value approach. Specifically, where there is insufficient data to measure the asset for acquisition costs, the entity may value the asset as nil on transition if applying the modified retrospective approach. However, there is no equivalent option to recognise a nil asset under

the fair value option. Another member referred to the IASB's reasoning in the Board paper which is not to discourage preparers from applying the modified retrospective approach.

- Members supported the ability to value an asset for acquisition costs as nil where no reliable data was available under the modified retrospective approach and therefore agreed that this issue would not be raised with the IASB.

Update on the 25 areas of concerns and discussion of outstanding issues and proposed actions	**ATT5**

Members discussed the IASB's responses to the 25 areas of concerns raised in the IASB October 2018 Board meeting to determine the proposed industry next steps in relation to these topics.

RAG ratings in the attachment are based on whether and the extent to which the IASB's responses to areas of concerns align with the feedback provided by the AASB TRG.

The key points discussed are summarised below:

Contracts acquired in their settlement period

- The IASB had considered the topic and provided a relief on transition for historic acquisitions. However, the AASB TRG submission in response to the Exposure Draft had requested for the relief to be extended to future acquisitions.
- A paper had been drafted (ATT6) to support another request for an amendment on this topic. Members were asked for their views on whether to submit another request for amendment to the IASB. A member noted that the IASB staff had expressed to the IASB Board that nothing new had been brought to their attention which the Board had not previously considered. The member considers that the operational implications of this issue are now more widely known and the paper highlights points that have not been previously considered by the IASB – e.g. the loss of information on claims development tables and suggested solutions.
- The preparer of the paper noted that the paper recommends that amendments are applied to a narrower scope of contracts than previously requested – specifically where entities acquire the contracts with an intention to renew those contracts (as opposed to generating profit through run-off of claims). A member supported the recommendations made in the paper and considered them to be principles-based approaches which are determined based on facts and circumstances.
- Another member suggested that a recommendation could be made to allow the risk adjustment to reflect the higher risk/uncertainty associated with acquired contracts, therefore, potentially resulting in a nil CSM. A member questioned whether the risk adjustment could be used to fully erode the CSM. Another member responded that if the fulfilment cash flows represent the fair value of the acquired contracts, the CSM is likely to be nil. The member added that this would still result in the fulfilment cash flows being classified as liability for remaining coverage and the recognition of revenue over the period to determination of the ultimate cost of claims (usually claims settlement) and would not therefore solve the fundamental problem of grossing up revenue.
- A member raised the issue that there was an assumption that the contracts acquired were in fact insurance contracts. Another member noted that if there was insufficient insurance risk they would not qualify as insurance and would therefore likely be accounted for under IFRS 9. Assuming there was sufficient insurance risk then members were happy to include acquired contracts as insurance.
- No members disagreed with the proposal to provide a submission to the IASB. Members were requested to submit any comments on the paper by 27 March 2020.

Use of locked in discount rate and reinsurance covering contracts not yet issued • These topics were not addressed by the IASB. A member expressed concern around the possible adverse impact of this issue and suggested that a submission should be made on this topic. The member agreed to draft a submission for discussion at the next AASB TRG meeting.	
AOB	**ATT7**
The following points were noted: • The Actuarial Summit which was scheduled to be held in June 2020 has been cancelled due to COVID-19. [Subsequent note: the summit is now being established as a virtual summit by the institute of Actuaries.] • The next AASB TRG meeting is still planned to be held on 22 June 2020. Industry participants are encouraged to submit any questions or issues relating to the implementation of AASB 17 to the AASB for discussion at this meeting. Members discussed the topic shared by the Hong Kong Insurance Implementation Support Group (ATT7) on the determination of coverage units. Members agreed that judgement should be applied when determining the coverage unit pattern to achieve a reasonable outcome and that a level of analysis that is too detailed could make it difficult to determine a coverage unit pattern. A member commented that considering coverage units for a larger group of contracts, rather than by individual contract, may perhaps resolve the issue and drive a more “normalised” coverage pattern. It was noted that many other P&C contracts cover a multitude of different underlying risks (e.g. construction, contractors all risk, energy and engineering, liability) which required appropriate analysis of the risks and therefore revenue earning patterns under current accounting regimes. A member noted that under IFRS 17 many of these will be accounted for under the PAA so no CSM pattern is required, however, it was noted that similar complexities exist.	
End Meeting	

Participants	**Organisation**
TRG members and delegates	
Anne Driver (Chair)	QBE
Stuart Alexander	Deloitte
Lilian Chong (on behalf of Tony Tong)	Pacific Life Re
Cassandra Cope	HCF
Jenna Cooke	Suncorp
Brendan Counsell	EY
Jane Clifford (on behalf of Fehraz Fallil)	iCare NSW
Karen Foo	Victoria Department of Treasury and Finance
Peter Grant	Insurance Australia Group (IAG)
Scott Hadfield	PwC
Jeroen Van Koert	AIA
Weldon Luo	ATO
Chris Maher	AMP
Ian Moyser	KPMG
Aidan Nguyen	Financial Services Council
Grant Robinson	AMP/ Institute of Actuaries IFRS 17 Implementation Task Force
David Rush	Institute of Actuaries IFRS 17 Implementation Task Force
Rob Sharma	APRA
Michael Sokulski	Medibank
Paul Stacey	Insurance Council of Australia
Leong Tan	Swiss Re
David Faulkner Tuck	Chair of the Accounting & Actuaries Liaison Committee (AALC)
Guests and guest speakers	
Kathy Allison	EY
Yeok Cheong	APRA
Trusha Darji	Medibank
Rachel Poo	QBE
Patricia Priest	Scor
Stephane Sega	Genworth
Richard Sheridan	IAG
Kaise Stephan	Deloitte
Owen Tong	Deloitte
Angus Thomson	QBE
AASB representatives	
Patricia Au	AASB Staff
Kris Peach	AASB Chair
Helena Simkova	AASB Staff