



08 June 2022

Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Dr Kendall,

**AASB Exposure Draft ED 319 *Insurance Contracts in the Public Sector***

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on AASB Exposure Draft ED 319 *Insurance Contracts in the Public Sector*. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the Australian and New Zealand Accounting Standards Boards' efforts to propose public sector-specific modifications to AASB 17 *Insurance Contracts* to facilitate the application of this standard by public sector entities with insurance and insurance-like arrangements.

While ACAG understands the AASB's rationale for not prescribing the importance (weighting) of the indicators in assessing whether a public sector insurance arrangement is within the scope of AASB 17, guidance on the importance of the indicators would improve the consistency and comparability of financial statements across like public sector entities. This is particularly the case in more judgmental circumstances where it is not definitive if public sector entities fall within the scope of AASB 17 and the public sector entities have differing interpretations of the indicators that are the most significant to this assessment. As an alternative to rating the individual indicators, the Board could specify the relative importance of the indicators by separating them between primary and secondary indicators.

ACAG's submission also includes other suggestions and recommendations that we believe will help promote greater consistency and comparability of application across like public sector insurance arrangements.

The attachment to this letter addresses the AASB's specific matters for comment outlined in the ED. ACAG appreciates the opportunity to comment and trusts you find the attached comments useful.

Yours sincerely

Margaret Crawford  
Chair  
ACAG Financial Reporting and Accounting Committee

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**AASB Specific Matters for Comment****Sub-grouping of contracts [paragraphs Aus16.1 and Aus22.1 and paragraphs BC19 to BC45]****SMC 1**

Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context?

Please provide your reasons.

ACAG agrees with the proposal to exempt public sector entities from subgrouping contracts based on whether they are onerous or non-onerous at initial recognition for the reasons outlined in paragraph BC34 of the ED.

As identified in paragraph BC 34(a), ACAG agrees that the information obtained from sub-grouping would not be useful to users of the financial statements, compared to the effort required to gather the information (if even possible) and assess this. Some jurisdictions confirmed that insurers have pricing set for the whole portfolio based on ministerial decisions, or will use consistent pricing decisions and requirements for customers (with very minor exceptions) that would not align well to a sub-grouping approach. There does not tend to be any deliberate 'loss leading' as the public sector insurers often cannot reject policyholders.

**SMC 2**

Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context?

Please provide your reasons.

ACAG agrees with the proposal to exempt public sector entities from subgrouping contracts based on whether they are issued more than one year apart as the assessment of onerous / non onerous contracts by the year in which the contract is entered is not considered overly relevant for the majority of public sector insurance entities for the reasons outlined in paragraph BC45 of the ED.

**Initial recognition when contracts are onerous [paragraph Aus25.1 and paragraphs BC46 to BC50]****SMC 3**

Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous?

Please provide your reasons.

ACAG agrees with the proposal to amend AASB 17 to remove the requirement for public sector entities to recognise insurance contracts when the group becomes onerous if this is earlier than the beginning of the coverage period or the date when the first payment from the policyholder becomes due.

ACAG supports the proposal in paragraph Aus25.1 because without paragraph Aus25.1, the public sector would be required to initially recognise groups of insurance contracts when they become onerous which may:

- be overly burdensome for some public sector entities where their systems are not set up to capture this information
- impact on the usefulness of the financial statements to users if the financial statement results are distorted by recognising some or all of the following year's contracts. Some of the workers compensation and public indemnity insurers have coverage periods aligned to financial years which would result in the recognition of future year onerous contracts late in the current year, which could result in the financial statements not providing as useful information as intended.



Public sector entities have more onerous contracts than the private sector as many public sector insurers do not seek a profit and aim to break even and cover their costs over the long term.

**Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA) [paragraphs Aus34.1 to Aus34.3 and AusB64.1 and paragraphs BC51 to BC85]**

**SMC 4**

Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:

- (a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;
- (b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;
- (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;
- (d) arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:
  - (i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or
  - (ii) a broad government policy framework that includes considering general economic circumstances and community needs.

Please provide your reasons.

ACAG agrees that the PAA should be the expected approach for many public sector entities and supports the proposed guidance on coverage periods that impact on the eligibility criteria for the PAA. The guidance helps align the public sector's eligibility for the PAA to any comparable private sector counterparts without public sector specificities.

In some cases, insurance entities simply would not have access to the information required for utilising the general measurement model if the coverage period was assessed to be longer than one year (as their funding arrives through an intermediary and hence information on their 'policyholders' is limited).

ACAG agrees with the proposed guidance that:

- (a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits. Often a public sector entity's practical ability to fully price for risks or benefits is beyond the control of the individual entity and may require ministerial approval or be set by an independent regulatory agency. For example, in NSW, the State Insurance Regulatory Authority (SIRA) regulates three statutory insurance schemes in NSW - workers compensation, compulsory third party (CTP), and home building compensation.
- (b) a public sector's monopoly position for providing coverage risks in a particular community and obligation to stand ready to insure participants/policyholders should not of itself impact the public sector entity's practical ability to price for risks or benefits. While public sector insurers may be a monopoly or a near monopoly this does not prevent them from pricing for risks and benefits to ensure that they break even. The guidance also provides clarity and certainty on how the monopoly status affects the entity's practical ability to fully price for risks or benefits thereby reducing inconsistent interpretations.

- (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits. While public sector entities may be required to stand-ready to insure future policyholders there could be turnover in the participants/policyholders over successive years. While public sector entities may not aim to achieve a profit compared to their private sector counterparts, they do aim to break even which requires them to consider the pricing for risks and benefits.
- (d) arrangements would not be regarded as failing to meet the criteria in AASB 17.34(b(ii)) because the premium pricing for coverage up to the date risks are re-assessed takes into account risks that relate to periods after the reassessment date based on having a policy of determining pricing and benefits using a medium to long term view of a broad policy framework that includes considering general economic circumstances and community needs. For example, in NSW in relation to the Home Building Compensation Fund (HBCF), administrative and policy reforms in 2017 have put the HBCF on the road to break-even pricing. Since 2018, icare has progressively moved premiums towards full break-even rates in a staged approach that continues the policy of supporting the construction industry. The most recent premium filing was undertaken in early 2021, with the final tranche of increases towards sustainable rates (relating to multi-unit dwellings) occurring in July 2021. This brings the HBCF within the icare sustainable pricing strategy of premiums within 10 per cent of operational breakeven.

As noted below under SMC 9 there are uncertainties as to the coverage period (the period of insurance contract services) when there is no link between an insurance contract, the policyholder (per AASB 17, the person who has the right to be compensated) and the payment by the party who pays the premium / levy. ACAG believes further guidance is required to determine the coverage period for public sector arrangements that do not issue insurance contracts (i.e. where the arrangement is enforceable through legislation or other means) but may fall within the scope of AASB 17. For example, arrangements such as public sector insurance arrangements for serious and substantial injury. These arrangements are funded from annual levies on Compulsory Third Party (CTP) insurance premiums collected by licensed insurers and there is no direct link between the person who pays the premium and the person who receives the benefits.

In these circumstances it is not clear in the ED whether the coverage period would be one year as the levies are linked to the annual CTP premiums, or the coverage period is the length of time the injured person is entitled to compensation (which can be many years). ACAG believes that additional guidance may help reduce the possible different interpretations and improve the consistency and comparability of financial statements across like public sector entities.

<p><b>SMC 5</b></p> <p>Do you agree with the proposals to:</p> <ul style="list-style-type: none"> <li>(a) require disclosure of information about the nature of the pricing process, including:                             <ul style="list-style-type: none"> <li>(i) the manner in which pricing/benefits are determined;</li> <li>(ii) the timeframes for which they are typically determined; and</li> <li>(iii) any other relevant constraints under which an entity operates;</li> </ul>                             when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and                         </li> <li>(b) permit the disclosure to be located either:                             <ul style="list-style-type: none"> <li>(i) in the notes to the financial statements; or</li> <li>(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?</li> </ul> </li> </ul> <p>Please provide your reasons.</p>
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- (a) ACAG agrees with the proposal to require disclosure of information about the nature of the pricing process when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period.

While ACAG agrees with the disclosure requirements, we believe that limitations should be placed on the disclosure (similar to disclosure exemption in AASB 137 for provisions and contingent liabilities) if this is sensitive information that will affect the public sector entity's ability to compete in the market if they are not a monopoly provider.

- (b) ACAG agrees that public sector entities should be able to disclose the information in the notes to the financial statements or by reference to an authoritative source on the same terms as the financial statements and at the same time. This provides more flexibility for public sector entities and reduces duplication in the financial statements if the information is included in another source.

Given the few practical instances where information required by accounting standards is cross-referenced out of the main financial statements, and the lack of experience of these limited situations in the public sector, ACAG suggests that the AASB highlights the implications. The implications would be similar to those required when executive remuneration disclosures were cross-referenced from the notes to the financial statements to the remuneration report. This required that the information cross-referenced would still be audited (to ensure compliance with the accounting standards), with the scope of the audit expanded to include the cross-referenced information, and the need for similar changes to the directors' declaration / management certificate.

**Risk adjustment [paragraphs BC86 to BC122]**

<b>SMC 6</b>
<p>The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.</p> <p>In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.</p> <p>The proposed paragraph 37.1 in the NZASB's Exposure Draft states:</p> <p style="padding-left: 40px;">37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).</p> <p>(a) Do you support:</p> <ul style="list-style-type: none"> <li>(i) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or</li> <li>(ii) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?</li> </ul> <p>Please provide your reasons.</p> <p>(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.</p>

- (a) ACAG supports the AASB approach of not modifying the AASB 17 requirement regarding the risk adjustment requirement as this is consistent with a principles-based standard. This allows public sector entities to apply the requirements based on their individual facts and circumstances.

However, the ED is not clear on the Board's views on whether a public sector entity can have a zero-risk adjustment and the circumstances when this may be appropriate. This should be clarified in the Basis for Conclusions.

ACAG does not believe the Board's views are clear on whether a zero-risk adjustment is appropriate as contradictory views are expressed in paragraphs BC 93 and BC 114 which may result in differing application by public sector entities and their auditors, even when those entities have similar arrangements.

Paragraph BC93 states that:

*'the AASB Discussion Paper Basis for Conclusions [AASB DP.BC8 to BC13] raised the possibility of a risk adjustment of zero based on a case of a public sector entity with a government guarantee and/or a monopoly position in which it can recoup current and past losses from its controlling government or via future contracts. However, the AASB Discussion Paper concluded that, while the risk adjustment might differ from a for-profit private sector entity, it is unlikely to be nil because:*

*(a) the uncertainties associated with outstanding claims cash flows in respect of past transactions, that would be reflected in a risk adjustment are a characteristic of the claims liability; and*

*(b) in respect of the current (usually annual coverage) transactions, the entity is bearing risk for that period and an entity's monopoly position is not relevant [AASB DP.BC10]'*

Paragraph BC 114 states that:

*'under AASB 17, public sector entities might determine a zero risk adjustment on the basis that they are monopolies and can adjust future prices to make up for higher-than-expected past claims'.*

If a zero risk adjustment is appropriate, the ED should clarify the circumstances when this may be appropriate. For example, two respondents indicated in the feedback on the AASB Discussion Paper 'Australian-specific Insurance Issues – Regulatory Disclosures and Public sector Entities' that a risk adjustment of zero may also be appropriate where a scheme is so long tail that volatility is largely mitigated by the smoothing over time (Agenda Paper 8.1, September 2018 Board meeting). It is not clear whether it is appropriate for the risk adjustment to be zero when the scheme is long tail as this circumstance is not mentioned in paragraph BC 114.

Irrespective of whether the scheme is long tail or not, some ACAG Offices believe that some risk adjustment may be necessary because:

- even where the agencies liability is guaranteed by its parent (the government), own credit risk does not appear to be part of the AASB 17 definition of risk adjustment
- public sector entities are subject to the same or similar variability of cash-flows (i.e. uncertainty to the amounts of outstanding claims) as private sector entities.

ACAG also suggests amending paragraph BC90 which refers to entities benchmarking to 75% confidence level to reflect the current practice of private sector entities. While the majority of the public sector use 75%, ACAG understands the private sector only use 75% as the minimum. This is inconsistent with the Staff papers presented at the AASB Board meetings which refer to the private sector using risk margins of between 80% to 95% confidence level (probability of adequacy) (paragraph 1.3 of Agenda paper 10.3, April 2021) and between 80% and 90% (paragraph 10 of Agenda Paper 5.3, November 2021).

- (b) ACAG does not have a suggested alternative approach for the risk adjustment requirement in AASB 17.



**Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211]****SMC 7**

The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:

- (a) similarity of risks covered and benefits provided;
- (b) identifiable coverage;
- (c) enforceable nature of arrangement;
- (d) source and extent of funding;
- (e) management practices and assessing financial performance; and
- (f) assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?

ACAG agrees with the proposed indicators outlined in paragraphs AusB16.1 to AusB16.25.

**SMC 8**

Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.

ACAG does not have any suggested alternatives or additional indicators to those specified in paragraphs AusB16.1 to AusB16.25.

**SMC 9**

The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

- (a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?
- (b) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?

**(a) Additional guidance on the indicators**

The guidance should be expanded to explain that there is no link between an insurance contract, the policyholder (per AASB 17 the person who has the right to be compensated) and the payment by the policyholder of a premium – specifically, that the party who pays the levy does not have to be the policyholder. There is still some uncertainty, even with the indicators, and the references in the ED to levies/premiums and premiums/levies, whether these arrangements are intended to be within the scope of AASB 17. Using an illustrative example that applies the indicators to a common public sector arrangement (such as lifetime care benefits) may help promote greater consistency in judgements across like arrangements. This includes arrangements such as the National Injury Insurance Scheme covering (very) serious personal injury, and Nominal Defendant schemes in Queensland and Lifetime Care and Support scheme in NSW. An illustrative example that demonstrates how paragraphs AusB16.13-16 and AusB16.17-19 would be applied in these circumstances would assist in determining whether such arrangements are within the scope of AASB 17.

Because of the current uncertainty, there are different views in interpreting enforceability – particularly where the policyholder has an enforceable right to compensation, but there is no enforceability from the payer of the premium / levy. Consequently, it is unclear how this indicator should be interpreted. There are similar interpretation issues when assessing coverage period because there is no contract or arrangement between the payment of the premium / levy and the risks being covered.

There is also a lack of clarity in relation to whether social benefit schemes should be scoped out of AASB 17. Paragraphs AusB16.2, BC 199 and BC 200 have not specifically excluded social benefit schemes from the scope of AASB 17 and require an assessment of the social benefit arrangement against the proposed indicators to determine whether it is within the scope of AASB 17. There are also a number of paragraphs which identify that social benefit schemes are different from insurance contracts (paragraphs AusB16.2, BC 136, BC146) and that these schemes are not intended to be included (paragraph BC 166).

### **Importance of the indicators**

While ACAG understands the AASB's rationale for not prescribing the importance (weighting) of the indicators in assessing whether a public sector entity is within the scope of AASB 17, the absence of guidance on the importance of the individual indicators could result in differing application by public sector entities and their auditors, even when those entities have similar arrangements.

Because of their specific nature / legislative basis, there may also be differences in opinion between public sector agencies and their auditors on whether their risk acceptance and benefits are the same as, or similar to, private sector insurers, including when the differences are so significant that they are no longer 'similar' insurance offerings.

While more prescriptive guidance over the application may not be endorsed as consistent with a principles based standard or highly desirable by the industry because it allows less flexibility in application, it would improve the consistency and comparability of financial statements across like public sector entities. This is particularly the case in more judgemental circumstances where it is not definitive if public sector entities fall within the scope of AASB 17 and the public sector entities have differing interpretations of the indicators that are the most significant to this assessment.

If the AASB does not rate the individual indicators, some ACAG Offices suggest the Board consider specifying which indicators are of higher importance to the assessment of whether a public sector entity is within the scope of AASB 17 by splitting these into primary and secondary indicators. ACAG believes the following indicators would be primary indicators (for which more weight is applied) in the assessment of whether a public sector entity is within the scope of AASB 17:

- similarity of risks covered and benefits provided
- identifiable coverage period
- enforceable nature of the arrangement (noting our response to (b) below that ACAG believes this should be a pre-requisite)
- source and extent of funding.

ACAG believes the following indicators would be secondary indicators when assessing whether a public sector entity is within the scope of AASB 17:

- management practices and assessing financial performance
- assets held to pay benefits.

ACAG believes these are secondary indicators because they would be present in many other public sector arrangements, such as social benefit and other arrangements.



- (b) While the AASB states that none of the indicators are a pre-requisite to apply AASB 17, ACAG questions whether public sector entity arrangements can be accounted for under AASB 17 if they are not enforceable. Paragraph BC 154 of the ED states:

*'The Boards noted that, under AASB 17/PBE IFRS 17, the description of the rights and obligations that would be accounted for under insurance contracts is broad (and go beyond the contract). AASB 17.2/PBE IFRS 17.2 says (emphasis added):*

2. *An entity shall consider its substantive rights and obligations, whether they arise from a **contract, law or regulation**, when applying IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations'.*

If the public sector arrangement does not create enforceable rights and obligations then this would not align with paragraph 2 of AASB 17 above, but could still result in the insurance arrangement being assessed as being within the scope of AASB 17 because other indicators may be present in the arrangement. If arrangements that were not enforceable were included in the scope of AASB 17 then this would be contrary to other Australian Accounting Standards such as AASB 15 *Revenue for Contracts with Customers*, AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities*.

ACAG therefore suggests the Board consider whether enforceability of the arrangement (whether by contract, legislation or other means) should be a pre-requisite for applying AASB 17.

#### Application date [paragraph AusC1.1 and paragraphs BC212 to BC215]

##### SMC 10

Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.

ACAG agrees that the proposed mandatory application date for public sector entities of annual reporting periods beginning on or after 1 July 2025 is feasible if the proposals in the ED are reflected in AASB 17 and the information gathering and systems modifications are minimised.

The application date results in the public sector adopting AASB 17 two years after the private sector with a 30 June balance date, which will allow the public sector to apply any learnings from the private sector's implementation.

##### SMC 11

Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?

Please provide your reasons.

Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:

- (a) specifically exempting 'captive' public sector insurers from applying AASB 17 in their separate general purpose financial statements [paragraphs BC215 to BC223];
- (b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC224 to BC246];
- (c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and
- (d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].

ACAG has identified anomalies in the AASB approach that 'captive' public sector entities preparing general purpose financial statements (GPFS) should follow AASB 17, but when those entities do not prepare GPFS they should not have to follow AASB 17. The anomalies arise when the insurance arrangements are administered by an agency on behalf of the state and does not prepare its own GPFS. For example, the Queensland Government Insurance Fund (QGIF) (for some of its activities) currently undertakes insurance activities (policies and premiums) with other government parties. While it does not prepare its own GPFS (essentially as a captive insurer there is no need for external reports), the QGIF activities are captured by Queensland Treasury 'Administered Activities'. The calculation of outstanding claims for QGIF (in accordance with AASB 17 and possibly using a risk adjustment) for disclosure in the Treasury administered financial statements does not seem relevant when the amount in the Whole of Government (WoG) financial statements will be different as the liability will be calculated under AASB 137.

A similar anomaly arises in AASB 1049 for the general government sector (GGS) financial statements where AASB 17 accounting would need to be applied to the QGIF policies for PFC and PNFC entities that are eliminated on consolidation in the WoG financial statements.

ACAG suggests the following other modifications to the ED:

- Clarifying the reasoning as to why the AASB has concluded that domestic building risk coverage arrangements being greater than one year (BC42(a) and BC57(b)(i)). For example, under the Queensland Home Warranty Scheme (run by the Queensland Building and Construction Commission (QBCC)) notices of cover are issued for individual work projects and premiums are linked to the value of the individual work projects. Coverage is for if a contractor fails to complete a contract for residential work or fails to rectify defective work arising from the individual work project. There are certain limitations and restrictions, for example limitations to the notification of defects – non-structural defects of six months and structural defects of six years and six months.
- There are some Basis for Conclusion paragraphs that include commentary enclosed in [] brackets. Is this intended? For example, BC65, BC146, BC156.
- ACAG suggests the Board check whether the Medicare levy goes to Medicare activities. ACAG's understanding is that most of the Medicare levy goes into consolidated revenue, as most of the revenue raised by the Medicare levy is not hypothecated and goes into consolidated revenue. A proportion is being directed to the newly established Disability Care Australia Fund which helps fund the NDIS. An overview of Medicare is available from the Parliament of Australia [website](#).
- The drafting of paragraph BC232 appears contradictory. The liability for incurred claims may be increased by a risk margin for uncertainty (e.g. for 75% or more probability), but then the liability is reduced (through a higher illiquidity premium) if the length of time over which claims (cash flows) are expected to be paid is longer and the cash flows more uncertain. It appears contradictory to have a higher risk margin for uncertainty, yet a higher illiquidity premium the more unpredictable the cash flows.
- In paragraph BC186, ACAG suggests changing 'effecting' to 'affecting'.

## AASB General Matters for Comment

### GMC 12

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

### GFS issues with the proposals in ED 319

ACAG has identified a potential GFS issue created by the public sector modifications to AASB 17 in relation to the definition and scope of insurance contracts.



The International Monetary Fund Government Financial Statistics Manual 2014 (IMF GFSM) and the Australian Government Financial Statistics Manual (AGFSM) defines insurance policy as ‘an agreement between an insurer and another institutional unit, the policyholder. Under the agreement, the policyholder makes a payment (premium) to the insurance corporation, which makes a payment (claim) to the policyholder if or when a specified event occurs. The policyholder protects itself against certain forms of risk’ (paragraph A4.66 of the IMF GFSM and paragraph 13.86 of AGFSM). The GFS definition of insurance implies that the policyholder makes a payment or premium to the insurer. This is different from ED 319, where the ‘source and extent of funding’ is only one of 6 indicators that an arrangement may be within the scope of AASB 17. Paragraph AusB16.2 requires the indicators outlined in paragraphs AusB16.4 to AusB16.25 to be considered collectively so that a balanced judgement can be made. Consequently, there is a risk that some public sector arrangements may be accounted for as an insurance contract within the scope of AASB 17, but not captured as an insurance policy under GFS.

**GFS issues with the proposals in AASB 17**

ACAG also notes the following possible convergence difference between AASB 17 and GFS.

If a general government sector (GGS) unit operates an insurance scheme and maintains separate reserves, the IMF GFSM and the AGFSM requires the GGS unit to record transactions related to the non-life insurers in the same way as other insurers (paragraph A4.79 of the IMF GFSM).

There is a convergence difference between the recognition of investment revenue under AASB 17 and under the IMF GFSM and AGFSM. AASB 17 requires investment returns to be recognised, measured and presented separately. The IMF GFSM and AGFSM deems the income generated by the investment of reserves as an implicit premium supplement attributed to policyholders. Therefore, the public sector insurer is required to attribute the investment returns by recording an expense (Property, expense for investment income disbursements) and an increase in liabilities in non-life insurance technical reserves (consists of prepayments of net non-life insurance premiums and reserves to meet outstanding non-life insurance claims (paragraph A1A.327 of AGFSM)). When the liability is extinguished, the insurer records the premium supplement. This supplement reduces the cash payment that would otherwise be required from the policyholder and is recorded as revenue (classified as premiums, fees and current claims related to non-life insurance and standardised guarantee schemes) and a decrease in financial liabilities for non-life insurance technical reserves (A4.79 of IMFGFSM and Box 13.1(i) of AGFSM).

The extent of the convergence difference will depend on whether a GGS unit or the public financial corporations sector operates insurance schemes including whether they are eliminated at the whole of government level.

These changes are likely to change the accounting for provisions / outstanding claims by some public sector entities. It is not clear whether these changes can be dealt with as changes to liability estimates or will create a GFS difference.

<p><b>GMC 13</b></p> <p>Whether the proposals would create any auditing or assurance challenges and, if so, an explanation of those challenges?</p>
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ACAG believes that the proposals and AASB 17 will create auditing and assurance challenges. ACAG believes the key auditing and assurance challenges are likely to arise in the following areas:

**1. Determining whether a public sector entity is within the scope of AASB 17**

Refer to ACAG’s comments at SMC 9.

**2. Applying AASB 17, modified as proposed, to insurance-like arrangements in the public sector that have accounted for their liabilities under AASB 137**

While ACAG agrees that insurance-like arrangements that meet the recognition criteria in paragraphs AusB16.1 to AusB16.25 should be accounted for under AASB 17, the standard in its current form has not been tested for such schemes that don't issue insurance contracts. In particular, how contract boundary and coverage period are intended to be applied and tested where there is no contract. Refer to ACAG's comments at SMC 4. This creates additional complexity in auditing these entities.

**3. Determining the adjustment for non-financial risk**

As stated in IFRS 17.BC210(a), currently there is no single well-defined measurement approach to risk adjustments that provide consistency and comparability of results. This fact compared with the significant judgement used by the entity to determine the risk adjustment and the fact that not-for-profit entities generally don't seek compensation from bearing risk, the possibility of government backing of claims liabilities and the long-term nature of the claims adds to the complexity in auditing the appropriateness of the risk adjustment factor for non-financial risk. Added to the complexity, is whether it is appropriate for public sector entities to have a zero risk adjustment. As stated above in SMC 6, the ED is not clear on the Board's views on whether a public sector entity can have a zero-risk adjustment and the circumstances when this may be appropriate. This should be clarified in the Basis for Conclusions.

<b>GMC 14</b>
Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?

ACAG believe that the application of AASB 17 modified as proposed would result in financial statements that are useful for users as they will help promote consistency in the accounting for insurance-like arrangements by public sector entities, particularly in relation to the calculation of liabilities. In most cases, it is the liability calculation, not the income stream, that drives government decision-making and is the focus of users of the financial statements. For example, some insurance-like arrangements currently apply AASB 1023 *General Insurance Contracts*, while others are applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

<b>GMC 15</b>
Whether the proposals are in the best interests of the Australian economy?

ACAG has no specific comments.

<b>GMC 16</b>
Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).

ACAG has no specific comments.