



## Cover Memo

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|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|---------------------------------------------------------|
| <b>Project:</b>  | <b>Insurance Activities in the Public Sector</b>                                                                                                                                                                                                                                                                                                                        | <b>Meeting:</b>         | AASB September 2022 (M190)<br>NZASB October 2022 (M103) |
| <b>Topic:</b>    | Consider stakeholder feedback                                                                                                                                                                                                                                                                                                                                           | <b>Agenda item:</b>     | AASB 4.1<br>NZASB 7.1                                   |
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|                  |                                                                                                                                                                                                                                                                                                                                                                         | <b>Project priority</b> | Medium                                                  |
|                  |                                                                                                                                                                                                                                                                                                                                                                         | <b>Decision-making</b>  | High                                                    |
|                  |                                                                                                                                                                                                                                                                                                                                                                         | <b>Project status</b>   | Feedback on AASB ED 319 / NZASB ED 2022-3               |

### Objectives of this agenda item

- In respect of applying AASB 17/PBE IFRS 17 *Insurance Contracts* to public sector entities, the objectives of this item are for the Boards to address the topics and actions set out below.

| Agenda paper |       | Topic and action                                                                                                                                                                                                                                                                                                                                 |
|--------------|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB         | NZASB |                                                                                                                                                                                                                                                                                                                                                  |
| 4.2          | 7.2   | <b>Sub-grouping of insurance contracts:</b><br>CONSIDER ED feedback and CONFIRM the proposed modifications (exemptions) from sub-grouping insurance contracts into onerous versus non-onerous groups and by annual cohort of insurance contracts issued                                                                                          |
| 4.3          | 7.3   | <b>Initial recognition when insurance contracts are onerous:</b><br>CONSIDER ED feedback and CONFIRM the proposed modification in respect of initial recognition of onerous insurance contracts                                                                                                                                                  |
| 4.4          | 7.4   | <b>Coverage period and eligibility for the premium allocation approach [PAA]:</b><br>CONSIDER ED feedback and DECIDE whether to:<br>(a) proceed with the proposed guidance on coverage periods;<br>(b) provide an accounting policy choice for applying the PAA; and<br>(c) proceed with modified proposed disclosure requirements about pricing |
| 4.5          | 7.5   | <b>Identifying arrangements within the scope of AASB 17/PBE IFRS 17:</b><br>NOTE the Boards' August 2022 decisions on factors/indicators and CONFIRM the changes needed to the explanatory text for each factor/indicator                                                                                                                        |
| 4.6          | 7.6   | <b>Risk adjustments in measuring insurance liabilities:</b><br>NOTE the Boards' August 2022 decisions, CONSIDER further information gathered from stakeholders and DECIDE on the matters to note in the Basis for Conclusions                                                                                                                    |



|     |     |                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-----|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.7 | 7.7 | <p><b>Captive insurance arrangements:</b><br/>CONSIDER ED feedback and CONFIRM the proposal not to make modifications in respect of reporting by captive insurers<br/><b>AASB only</b> to DECIDE whether to modify AASB 17 to allow a free choice to apply AASB 17 or AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> to prepare disclosures under AASB 1050 <i>Administered Items</i>.</p> |
| 4.8 | 7.8 | <p><b>Regulatory and other matters:</b> CONSIDER ED feedback<br/><b>AASB only</b> to DECIDE whether any actions need to be taken</p>                                                                                                                                                                                                                                                                                 |

### Reasons for bringing this agenda item to the Boards

- The Boards issued AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* in March 2022 with a 90-day comment period ending on 8 June 2022.<sup>1</sup> Across the two jurisdictions, eleven comment letters<sup>2</sup> have been received (please see the [Appendix](#) to this Cover Memo for a listing of the respondents). In addition, staff met with a number of financial statements preparers and auditors during the comment period to discuss their views, only some of whom subsequently submitted a comment letter. The agenda papers for this meeting refer specifically to matters raised in the eleven comment letters – the issues raised in the stakeholder discussions were generally consistent with the comment letters.
- At their August 2022 meetings, the Boards considered feedback on indicators for determining whether arrangements fall within the scope of AASB 17/PBE IFRS 17 and on risk adjustments. At this meeting, staff ask the Boards to consider feedback, staff analysis and recommendations on the remaining ED proposals, and confirm the modifications to make to AASB 17/PBE IFRS 17 for the purposes of finalising revised Standards [in the case of the AASB, via an Amending Standard].

### Overview of staff recommendations

- The following table provides a high-level summary of the staff recommendations in AASB Agenda Papers 4.2–4.8/NZASB Agenda Papers 7.2–7.8.

| Agenda paper |       | Summary of staff recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|--------------|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB         | NZASB |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 4.2          | 7.2   | <p><b>Sub-grouping of insurance contracts:</b><br/>Proceed with the Boards’ proposals to exempt public sector entities from:</p> <ul style="list-style-type: none"> <li>(a) sub-grouping onerous versus non-onerous contracts at initial recognition; and</li> <li>(b) sub-grouping contracts issued no more than a year apart.</li> </ul> <p>Clarify that for public sector entities applying the modification above a portfolio of insurance contracts would be the main unit of account.</p> |
| 4.3          | 7.3   | <p><b>Initial recognition when insurance contracts are onerous:</b><br/>Proceed with the Boards’ proposal to modify AASB 17/PBE IFRS 17 for public sector entities so that the timing of initially recognising insurance contracts does not depend on when contracts become onerous.</p>                                                                                                                                                                                                        |

- The AASB project summary is available [here](#).
- The comment letters have been compiled as AASB [Agenda Paper 4.5](#)/NZASB [Agenda Paper 8.4](#) for the August 2022 meetings.



| Agenda paper |             | Summary of staff recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AASB         | NZASB       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 4.4          | 7.4         | <p><b>Coverage period and eligibility for the PAA:</b><br/>Proceed with the proposal to modify AASB 17/PBE IFRS 17 regarding coverage period and contract boundary but change the modifications (from the ED proposals) to:</p> <p>(a) provide public sector entities an accounting policy choice to apply the premium allocation approach to measure liabilities for remaining coverage, without the need to consider the eligibility criteria;</p> <p>(b) add guidance regarding coverage period for situations in which there are formal periodic pricing reviews, which may appear to give rise to multi-year coverage periods, but do not in fact remove the practical ability to re-price for risk on a more frequent basis;</p> <p>(c) add guidance on the meaning of ‘coverage’ to avoid potential confusion over whether it relates to an underlying insurance contract or the period over which claims might arise, in situations when arrangements are essentially statutory and are linked to an underlying insurance contract sold by a commercial insurer; and</p> <p>(d) require all public sector entities applying the Standard to disclose in the notes to the financial statements:</p> <ul style="list-style-type: none"> <li>• the timeframes for which prices are typically determined; and</li> <li>• the relevant government regulations or laws under which pricing processes are conducted.</li> </ul> |
| 4.5          | 7.5         | <p><b>Identifying arrangements within the scope of AASB 17/PBE IFRS 17:</b><br/>Based on the Boards’ decisions at their August 2022 meetings on the proposed factors/indicators for whether an arrangement falls within the scope of AASB 17/PBE IFRS 17:</p> <p>(a) specify in the scope section of the Standard that a public sector entity shall not apply AASB 17/PBE IFRS 17 to an arrangement that is not enforceable or does not have an identifiable coverage period; and</p> <p>(b) add explanatory text to clarify the six factors/indicators.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 4.6          | 7.6         | <p><b>Risk adjustments in measuring insurance liabilities:</b><br/>Add more background information on risk adjustments in the Basis for Conclusions to the Standard, based on additional stakeholder feedback and the August 2022 Board meeting decisions.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 4.7          | 7.7<br>Note | <p><b>Captive insurance arrangements:</b><br/>Consistent with the ED, make no modification to the scope of AASB 17 in respect of reporting by ‘captive insurers’ in their stand-alone GPFS.</p> <p><b>AASB only</b> – modify AASB 17 to allow a free choice to apply AASB 17 or AASB 137 to prepare administered items disclosures under AASB 1050.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 4.8          | 7.8<br>Note | No actions recommended on regulatory and other issues.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

*Note: These items are mainly of relevance to the AASB.*



## Proposed next steps and timeline

5. The following table outlines the proposed timeline needed to progress the project, assuming the Boards issue a draft version of the Standard for public comment prior to finalisation.
6. Each Board issued the existing version of AASB 17/PBE IFRS 17 on the assumption that the public sector project would be completed by the end of 2022. Meeting this timeline is important because:
  - otherwise, there will be potentially significant additional administrative processes for the Boards to complete in issuing and reissuing Standards; and
  - a number of ED respondents supported a 2025 effective date for public sector entities, subject to the Boards having the Standard issued by the end of 2022. If the Standard is issued later, some respondents suggested deferring the application date.

| Activity / Topic                                                                                                                                                                                                                                                                                                                                                                                                                              | AASB                                   | NZASB                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------|
| Consider feedback, analysis and recommendations on the ED proposals on sub-grouping, initial contact recognition, and coverage periods (including application of the PAA)<br>Confirm changes on factors/indicators for determining scope<br>Consider suggested additional Basis for Conclusions text on risk adjustments<br>Consider an emerging issue on captive insurers<br><b>AASB only:</b> Consider emerging issue on administered items | 21-22 September 2022 meeting           | 18 October 2022 meeting                                                        |
| The AASB and NZASB (or their subcommittee) to approve issuing revised draft Standards for comment out of session.<br>Propose issuing the draft Standards by 26 October 2022, with a 14-day comment period until 9 November 2022.                                                                                                                                                                                                              | 26 October 2022                        | 26 October 2022                                                                |
| <b>AASB only:</b> Consider feedback on the Fatal-Flaw Review Draft Standard AASB 2022-X <i>Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments for Public Sector Entities</i> <sup>3</sup>                                                                                                                                                                                                          | 10 November 2022 meeting               | Not relevant – no consequential amendments to Standards other than PBE IFRS 17 |
| AASB and NZASB to: <ol style="list-style-type: none"> <li>(a) consider stakeholder comments on the draft Standards;</li> <li>(b) vote on ballot-draft Standards at December 2022 meetings; and</li> <li>(c) publish final Standards by 31 December 2022.</li> </ol>                                                                                                                                                                           | Planned<br>14-15 December 2022 meeting | Planned<br>13 December 2022 meeting                                            |

### Questions for Board members

- Q1: Do Board members agree with issuing a revised draft AASB 17/PBE IFRS 17 prior to finalisation?
- Q2: If so, do Board members agree with a 14-day comment period?
- Q3: Do Board members have any comments on the proposed next steps and timeline?

<sup>3</sup> The consequential amendments to AASB Standards other than AASB 17 relate to ‘preserving’ references to AASB 4 and AASB 1023 for application by public sector entities until 2025 – there is no similar issue for the NZASB to consider.

## Appendix: List of respondents

Across the two jurisdictions, eleven comment letters have been received [shown in date order of receipt]:

| Respondent |                                                                     |
|------------|---------------------------------------------------------------------|
| OAGNZ      | Office of the Auditor-General New Zealand                           |
| PwC        | PwC (Australia)                                                     |
| TSY NZ     | Treasury New Zealand                                                |
| iCare      | iCare NSW                                                           |
| HoTARAC    | The Heads of Treasuries Accounting and Reporting Advisory Committee |
| EQC        | The Earthquake Commission (NZ)                                      |
| ACAG       | The Australasian Council of Auditors-General                        |
| ACC        | Accident Compensation Commission (NZ)                               |
| ICWA       | Insurance Commission of Western Australia                           |
| RBNZ       | Reserve Bank of New Zealand                                         |
| KPMG       | KPMG (Australia)                                                    |