

Project update: AASB-NZASB Insurance Activities in the Public Sector December 2022

- 1 The AASB and NZASB issued AASB ED 319/NZASB ED 2022-3 proposing public-sector-specific modifications to AASB 17 *Insurance Contracts* and PBE IFRS 17 *Insurance Contracts* in March 2022 and received eleven comment letters across both jurisdictions.
- 2 The Boards re-deliberated the AASB ED 319/NZASB ED 2022-3 proposals at their meetings from August to October 2022 meetings and consulted with stakeholders through a Fatal-Flaw Review draft Standard issued in late October and open for comment to 11 November 2022.
- 3 The Appendix to this update shows a summary of the AASB 17/PBE IFRS 17 modifications in the FFR draft compared with the proposals in AASB ED 319/NZASB ED 2022-3.
- 4 Three formal submissions were received on the Fatal-Flaw Review draft Standard and other informal feedback was also received. There was generally positive feedback on the changes made in the Fatal-Flaw Review draft Standard compared with the proposals in AASB ED 319/NZASB ED 2022-3. The main issues arising from the outreach process were:
 - related to determining an identifiable coverage period in particular sets of circumstances;
 - possible inconsistent application of the risk adjustment requirements; and
 - the effective date.
- 5 In mid-November, a note was circulated among the Australian members of the AASB 17 TRG Public Sector Focus group members seeking specific feedback on whether the effective date should be periods beginning on or after 1 July 2025 or periods beginning on or after 1 July 2026.
- 6 An outline and analysis of the feedback from the Fatal-Flaw Review draft Standard outreach process is included in the December 2022 Board papers, which are available [here](#).

Timetable

- 7 The AASB next meets on 14 and 15 December 2022 and the NZASB next meets on 13 December 2022.
 - The AASB plans to vote to make the final Amending Standard in session.
 - The NZASB plans to vote to approve a revised version of PBE IFRS 17 *Insurance Contracts* that will introduce modifications applicable to public sector entities with a view to issuing a final Standard shortly thereafter.
- 8 The Amending Standard / Revised Standard to be voted on by the Boards will not be substantively different from the Fatal-Flaw Review draft Standard. Staff have recommended some changes to the drafting in the Standard, including some clarifying text on coverage periods and the meaning attached to 'pay-as-you-go' arrangements.

Appendix: Summary of AASB 17 modifications in the FFR draft compared with the proposals in the Exposure Draft

FFR ref.	AASB ED 319/NZASB ED 2022-3	FFR draft Standard
<p>Scope Aus6.1 Aus6.2 Appendix E BC152 to BC252</p>	<p>Proposed six factors to be applied collectively to determine which public sector arrangements are within the scope of AASB 17/PBE IFRS 17:</p> <ul style="list-style-type: none"> • enforceability of arrangement • identifiable coverage period • source and extent of funding from participants • similarity of risks covered and benefits provided to insurance to private sector insurance • management practices and assessment of financial performance (such as underwriting and risk assessment, managing capital base, fair and prudent claims management) • assets held to meet benefits 	<p><i>The six proposed factors are now ranked as pre-requisites, indicators and other considerations.</i></p> <p>Apply AASB 17/PBE IFRS 17 only if arrangements:</p> <ul style="list-style-type: none"> • meet two pre-requisites: are enforceable, and have identifiable coverage periods; and • are judged to be insurance contracts based on two indicators and two other considerations. <p>Indicators:</p> <ul style="list-style-type: none"> • Source and extent of funding from participants • Similarity of risks covered and benefits provided to insurance to private sector insurance <p>Other considerations:</p> <ul style="list-style-type: none"> • management practices and assessment of financial performance • assets held to meet benefits
<p>Grouping Aus14.1 Aus16.1 Aus22.1 BC17 to BC48</p>	<p>Proposed that public sector entities be exempt from sub-grouping insurance contracts into onerous versus non-onerous groups and groups issued no more than a year apart.</p>	<p><i>No substantive change to the proposals</i></p> <p>Public sector entities to be exempt from sub-grouping insurance contracts into onerous versus non-onerous groups and groups issued no more than a year apart.</p>
<p>Initial recognition Aus25.1 BC49 to BC55</p>	<p>Proposed that public sector entities not initially recognised insurance contracts based on when contracts become onerous</p>	<p><i>No substantive change to the proposals</i></p> <p>Public sector entities not to initially recognised insurance contracts based on when contracts become onerous</p>
<p>Guidance on coverage periods Aus34.1 to Aus34.3 AusB64.1 BC56 to BC88</p>	<p>Proposed guidance on determining coverage periods in light of the common features of public sector arrangements, including monopoly status, the impacts of public policy objectives, and the basis on which pricing and benefits are set, which may include government regulators and Ministers</p>	<p><i>No substantive change to the proposals; however, substantive additions to the proposed guidance in view of the status of 'coverage period' as a pre-requisite for applying AASB 17/PBE IFRS 17 in a public sector context</i></p>
<p>Pricing and benefits disclosure Aus34.4 BC89 to BC95</p>	<p>Proposed that, when a public sector entity takes into account risks relating to periods after the reassessment date based on a policy of determining prices and benefits over a period longer than a single coverage period, it should be required to disclose information about the manner in which pricing/benefits are determined</p>	<p><i>Amended the proposal to simplify the disclosure and remove reference to external information</i></p> <p>Public sector entities would disclose timeframes for which pricing and benefits are typically determined and the titles of the relevant regulations or laws under which prices and benefits are set</p>

FFR ref.	AASB ED 319/NZASB ED 2022-3	FFR draft Standard
	and the timeframes for which they are typically determined, potentially by cross reference to external information	
Premium allocation approach Aus53.1 Aus69.1 BC96 to BC106	No proposals made in respect of applying the premium allocation approach	<i>Substantive change to provide public sector entities with an accounting policy choice</i> Public sector entities can choose to measure liabilities for remaining coverage applying the premium allocation approach, regardless of whether the eligibility criteria in paragraphs 53 and 69 of the Standard are met
Risk adjustment BC107 to BC151	AASB proposed no public sector modifications NZASB proposed a rebuttable presumption of a risk adjustment measured using a confidence level of 75%	<i>Both Boards concluded on making no public sector modifications in respect of risk adjustments</i>
Effective date AusC1.1 BC253 to BC258	AASB proposed that AASB 17 be effective for annual reporting periods beginning on or after 1 July 2025 NZASB proposed that PBE IFRS 17 be effective for annual reporting periods beginning on or after 1 January 2025	<i>No change to the proposals</i> Public sector entities would be required to apply AASB 17 to annual reporting periods beginning on or after 1 July 2025, and PBE IFRS 17 to annual reporting periods beginning on or after 1 January 2025
Captive insurers AASB 1050 paragraphs 6A and 6B BC268 to BC274	No proposals were made in respect of captive insurers	AASB only: <i>substantive change to provide government departments with an accounting policy choice in respect of administered item disclosures</i> Government departments can choose to apply either AASB 17 or AASB 137 Provisions, Contingent Liabilities and Contingent Assets in determining the information to be disclosed about administered captive insurer activities
Transition AusC9A.1 BC317 to BC320	No proposals were made regarding the transition to AASB 17 /PBE IFRS 17	AASB only: <i>substantive change for public sector entities to continue existing basis of accounting for adverse development covers that pre-date application of AASB 17/PBE IFRS 17</i> Public sector entities would apply AASB 17 if they currently apply AASB 1023 General Insurance Contracts and would apply AASB 137 if they currently apply AASB 137