



Staff paper

Project:	Insurance Activities in the Public Sector	Meeting:	AASB September 2022 (M190) NZASB October 2022 (M103)
Topic:	Identifying arrangements within the scope of AASB 17/PBE IFRS 17	Agenda item:	AASB 4.5 NZASB 7.5
Contacts:	Angus Thomson athomson@asb.gov.au Tereza Bublikova tereza.bublikova@xrb.govt.nz Patricia Au pau@asb.gov.au Charis Halliday charis.halliday@xrb.govt.nz	Date:	5 September 2022
		Project priority	Medium
		Decision-making	High
		Project status	Feedback on AASB ED 319 / NZASB ED 2022-3

Objectives of this agenda paper

- In respect of the proposed factors¹ for determining whether a public sector arrangement falls within the scope of AASB 17/PBE IFRS 17 *Insurance Contracts*, the objectives of this agenda paper are to:
 - NOTE the Boards' decisions from their August 2022 meetings;
 - CONSIDER staff's suggested changes to the drafting of the explanatory text for the factors; and
 - DECIDE on text to include in AASB 17²/PBE IFRS 17 [both the body of the Standard and the guidance] based on the Board's decisions at their August 2022 meetings.

Boards' decisions in August

- In AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* the Boards proposed that public sector entities determine whether their arrangements fall within the scope of AASB 17/PBE IFRS 17 based on a collective assessment of the following factors:
 - similarity of risks covered and benefits provided;
 - identifiable coverage period;
 - enforceable nature of arrangement;
 - source and extent of funding;
 - management practices and assessing financial performance; and
 - assets held to pay benefits.

1 In view of the Board's August meeting decisions to identify 'indicators' as either 'pre-requisites', 'indicators', or 'other considerations', this paper refers to them collectively as 'factors'.

2 In the AASB's case, the text will appear in an Amending Standard that amends AASB 17.



3. The Boards noted the following key general points from the ED feedback:
 - (a) While some respondents do not support each proposed factor, most consider it relevant to retain them all.
 - (b) Almost all respondents specifically supported some form of ranking of the factors, such as by nominating some factors as either pre-requisites for applying AASB 17/PBE IFRS 17, or as ‘primary’ indicators and ‘secondary’ indicators or ‘other considerations’.
 - (c) There was limited support for additional, alternative factors.
4. The Boards also noted that, in addition to the proposed factors, some respondents consider that it would be helpful to:
 - (a) widen the definition of ‘insurance contract’ to bring public sector insurance schemes appropriately into scope – for example, be referring specifically to statutory arrangements;
 - (b) provide guidance on what constitutes ‘social benefits’ that would not fall within the scope of AASB 17/PBE IFRS 17; and
 - (c) include examples to help guide entities in applying the factors.
5. The Boards decided to:
 - (a) in principle, retain all the proposed factors and not add alternative factors;
 - (b) add guidance on the definition of ‘insurance contract’ in a public sector context by expanding on the existing material in AASB 17/PBE IFRS 17.2;
 - (c) consider enhancing the guidance on ‘coverage period’ by including more discussion on circumstances when a claimant’s inherent status entitles them to benefits compared to circumstances when there is an identifiable coverage period in respect of which a claimant would be entitled to benefits; and
 - (d) to have staff develop examples of applying the factors to schemes with a view to considering how those might assist entities and considering the form in which they might be provided, such as via application guidance or in some other form.
6. In respect of (d), staff have included generic references to example situations in the proposed guidance, but have not yet developed specific examples, which might be more suitable for inclusion within education material.
7. More specifically, the table below outlines the Boards’ decisions on the individual proposed factors.

Proposed factor	Decision	
	Retain the factor and ...	Ranking
similarity of risks and benefits	explain that similarity between the risks and the benefits themselves is the focus, not the level of riskiness and, while some ‘last resort’ risks or ‘protection gaps’ might be peculiar to the public sector in terms of their level of riskiness, this should not preclude them from being in the scope of AASB 17/PBE IFRS 17	Indicator that would usually have relevance on a sliding scale



Proposed factor	Decision	
	Retain the factor and ...	Ranking
identifiable coverage period	add discussion in the guidance in the Standard on the existence of an identifiable coverage period for a particular class of beneficiary, versus a person's inherent status being sufficient to meet eligibility criteria for participation in a scheme	Pre-requisite for applying AASB 17 / PBE IFRS 17 – also see paragraph 8 below
enforceable arrangement	emphasise the meaning of the existing guidance in AASB 17/PBE IFRS 17 about the place of law and regulation as a part of an insurance contract, but do not specifically change the narrative to refer to 'statutory arrangements'	Pre-requisite for applying AASB 17 / PBE IFRS 17 – also see paragraph 8 below
source and extent of funding	not make substantive changes	Indicator that would usually have relevance on a sliding scale
management practices, assessing performance	place more emphasis on underwriting, which is a key feature of insurance, in explaining this factor	Other consideration that may help determine whether AASB 17/PBE IFRS 17 applies when the other factors are not definitive
assets held to pay benefits	not make substantive changes	Other consideration that may help determine whether AASB 17/PBE IFRS 17 applies when the other factors are not definitive

8. In terms of explaining the nature of the pre-requisite, the Board decided to include guidance, along the following lines:
- (a) if a pre-requisite can be established, the relevant arrangements would be eligible to apply AASB 17/PBE IFRS 17 and it would be a strong indication that the Standard should apply – however, the other factors may not support that conclusion; and
 - (b) if a pre-requisite cannot be established, the relevant arrangements would be ineligible to apply AASB 17/PBE IFRS 17, regardless of the other factors.



Draft revised modifications to AASB 17/PBE IFRS 17

Guidance on the definition of ‘insurance contract’ in a public sector context

9. AASB 17/PBE IFRS 17.2 says [emphasis added]:

Objective
...
<p>2 An entity shall consider its substantive rights and obligations, whether they arise from a contract, law or regulation, when applying [AASB 17/ PBE IFRS 17]. A contract is an agreement between two or more parties that creates enforceable rights and obligations. Enforceability of the rights and obligations in a contract is a matter of law. Contracts can be written, oral or implied by an entity’s customary business practices. Contractual terms include all terms in a contract, explicit or implied, but an entity shall disregard terms that have no commercial substance (ie no discernible effect on the economics of the contract). Implied terms in a contract include those imposed by law or regulation. The practices and processes for establishing contracts with customers vary across legal jurisdictions, industries and entities. In addition, they may vary within an entity (for example, they may depend on the class of customer or the nature of the promised goods or services).</p>

10. Staff recommend the following additional Aus/PBE paragraph:³

[Aus]2.1	<p><u>For a public sector entity to determine whether, in substance, there is an insurance contract, it is necessary to identify all the relevant sources of the terms of an arrangement, whether they arise from a contract, law or regulation. In a public sector context, an insurance contract might exist by virtue of some or all of the substantive rights and obligations for an insurance arrangement being set out in law or regulation. In some cases, there will also be separate legal contracts between the public sector entity and individual policyholders or policyholder group. In other cases, there may be little or no separate documentation between the public sector entity and individual policyholders or policyholder group.</u></p>
----------	--

Question for Board members

Q1: Do Board members agree with the additional paragraph recommended by staff? If not, what alternative(s) would you suggest?

Ranking and pre-requisites

11. At their August meetings, the Boards suggested that it might be useful to develop a flowchart to assist stakeholders in applying the factors to determine whether AASB 17/PBE IFRS 17 is applicable, particularly since the Boards had agreed to identify two factors as pre-requisites and rank the other factors.
12. [Appendix A](#) to this paper shows a possible flowchart.
13. Staff note that creating the flowchart posed a number of challenges because flowcharts function best when there is a clear sequential hierarchy of binary factors. However, the factors agreed by the Board are:

³ Both Boards have a policy of numbering paragraphs that are added to the IFRS text using the IFRS Standard paragraph number, following by a decimal point and unique consecutive numbering. The AASB also uses an ‘Aus’ pre-fix, while the NZASB has no prefix.



- (a) a mix of pre-requisites and other ranked factors;
 - (b) not sequential in the sense that there are two factors in each category – two ‘pre-requisites’ – two ‘indicators’ – two ‘other considerations’; and
 - (c) ‘binary’ only in respect of the pre-requisites, while the other factors are not ‘binary’ in the sense that the extent to which they hold is significant, rather than their mere presence or absence.
14. Staff consider that the flowchart might provide a useful adjunct to the narrative explanations for applying the factors, but consider that the primary focus should remain on the narrative guidance paragraphs.
15. Staff recommend adding two paragraphs in the 'Scope' section of the Standard to clearly state how the ranking of pre-requisites, indicators and other considerations should be applied in determining whether an arrangement is within the scope of the Standard.
16. Staff's suggested changes from the proposals in AASB ED 319/NZASB ED 2022-3 are included below as marked-up text for the Boards' consideration.^{4,5} The beginning of AASB 17/PBE IFRS 17.7 within the Scope section of the Standard is shown for context.

Scope

- 7 An entity shall not apply [AASB 17/PBE IFRS 17]⁶ to:
- (a) warranties provided by a manufacturer, dealer or retailer in connection with the sale of its goods or services to a customer ...
- [Aus]7.1 A public sector entity shall not apply [AASB 17/PBE IFRS 17] to an arrangement that:
- (a) is not enforceable; or
 - (b) does not have an identifiable coverage period.
- Paragraphs [Aus]B16.XX–[Aus]B16.XX provide guidance for determining whether an arrangement is enforceable and has an identifiable coverage period.
- [Aus]7.2 When a public sector entity determines that an arrangement is enforceable and has an identifiable coverage period, subject to paragraphs 8 and 8A, the entity shall:
- (a) apply the following indicators to determine whether an arrangement gives rise to insurance contracts that fall within the scope of [AASB 17/PBE IFRS 17]:
 - (i) ‘source and extent of funding’ on which there is guidance in paragraphs [Aus]B16.XX–[Aus]B16.XX; and
 - (ii) ‘similarity of risks covered and benefits provided’ on which there is guidance in paragraphs [Aus]B16.XX–[Aus]B16.XX; and
 - (b) in the event that the indicators are not definitive, apply the following other considerations to determine whether an arrangement gives rise to insurance contracts that fall within the scope of [AASB 17/PBE IFRS 17]:
 - (i) ‘management practices and assessing financial performance’ which there is guidance in paragraphs [Aus]B16.XX–[Aus]B16.XX; and

4 Both Boards have a policy of numbering paragraphs that are added to the IFRS text using the IFRS Standard paragraph number, following by a decimal point and unique consecutive numbering. The AASB also uses an ‘Aus’ pre-fix to the ‘B’ paragraphs, while the NZASB uses an ‘AG’ prefix.

5 The AASB refers to ‘Aus’ paragraphs in the body of the Standard, while the NZASB does not use a prefix.

6 Most IFRS Standards would use ‘this Standard’ in this situation. However, IFRS 17 *Insurance Contracts* refers to ‘IFRS 17’ in these situations. Accordingly, staff have followed the IFRS 17 convention.



(ii) the existence of a separate fund, or earmarked assets, that are restricted to being used to pay benefits on which there is guidance in paragraphs [Aus]B16.XX–[Aus]B16.XX.

Application Guidance

Identifying insurance contracts in a public sector context

[Aus]B16.1 The guidance in paragraphs [B7/AG7 to B16/AG16] on distinguishing between insurance risks and other risks applies equally to public sector entities. However, because public sector entities often undertake a much wider range of risk-bearing activities than private sector entities, additional guidance is needed to identify insurance contracts in a public sector context.

[Aus]B16.2 Governments often arrange to provide support as a result of events that affect individuals and communities. Some of these arrangements involve transactions that are best accounted for as insurance contracts, while many of these arrangements relate to a government’s role in providing services such as: social benefits, universal health care and disaster relief. In making the distinction between these types of arrangements, the factors indicators outlined in paragraphs [Aus]B16.4 to [Aus]B16.25 are considered in the following manner: collectively so that a balanced judgement can be made.

- (a) The existence of an ‘identifiable coverage period’ and the ‘enforceable nature of an arrangement’ are pre-requisites for applying [AASB 17/PBE IFRS 17].
- (b) The ‘source and extent of funding’ and the ‘similarity of risks covered and benefits provided’ are factors to consider that might indicate an arrangement gives rise to insurance contracts that fall within the scope of [AASB 17/PBE IFRS 17].
- (c) ‘Management practices and assessing financial performance’ and ‘assets held to pay benefits’ are other considerations that may help determine whether [AASB 17/PBE IFRS 17] applies when the other factors are not definitive.

~~AusB16.3 Individual indicators would not necessarily be regarded as definitive in determining whether public sector arrangements would be accounted for as insurance contracts.~~

17. Staff also recommend including the following narrative explanation for the manner in which the pre-requisites apply.

AusB16.X The pre-requisites for applying [AASB 17/PBE IFRS 17] identified in paragraph [Aus]16.2(a) apply in the following manner.

- (a) If a pre-requisite is established, the relevant arrangement is eligible to apply this Standard and it is a strong indication that the Standard should apply – however, the other factors identified in paragraphs [Aus]B16.XX to [Aus]B16.XX may, or may not, support that conclusion.
- (b) If a pre-requisite is not established, the relevant arrangement is ineligible to apply this Standard, regardless of the extent to which the other factors might indicate the arrangement involves insurance contracts.



Questions for Board members

- Q2: Do Board members wish to include flowchart showing application of the factors to determine whether an arrangement is within the scope of AASB 17/PBE IFRS 17? If so, are Board members supportive of the flowchart shown in [Appendix A](#)?
- Q3: Do Board members agree with the additional ‘scope’ paragraphs [Aus]7.1 and [Aus]7.2 on applying the factors to determine whether a public sector arrangement is within the scope of within the scope of AASB 17/PBE IFRS 17? If not, what alternative(s) would you suggest?
- Q4: Do Board members agree with the additional staff recommended narrative explanation for applying the factors to determine whether an arrangement is within the scope of AASB 17/PBE IFRS 17? If not, what alternative(s) would you suggest?
- Q5: Do Board members agree with the staff recommended narrative explanation for the manner in which the pre-requisites apply? If not, what alternative(s) would you suggest?

Order in which factors appear

18. For the time being, staff have numbered the suggested additional and amended paragraphs based on the existing paragraph numbering in AASB ED 319/NZASB ED 2022-3. However, staff would intend to renumber the paragraphs to place the pre-requisites first, the indicators second and the other considerations last.

‘Enforceability’

19. Staff recommend the following amendments to the Aus/PBE paragraphs proposed in AASB ED 319/NZASB ED 2022-3:

	<u>Enforceable nature of arrangement</u>
[Aus]B16.13	Under [AASB/NZASB] Standards, a contract is an agreement between two or more parties that creates enforceable rights and obligations. An insurance contract is <u>an enforceable contract under which one party (the ‘insurer’) accepts significant insurance risk from another party (the ‘insured’) by agreeing to compensate the insured if a specified future event adversely affects the insured.</u>
[Aus]B16.1X	<u>The existence of an enforceable contract is a strong indication that a public sector arrangement is within the scope of this Standard. When there is not an enforceable contract in respect of a public sector arrangement, that arrangement is not within the scope of this [AASB 17/PBE IFRS 17].</u>
[Aus]B16.14	<u>In determining whether there is an identifiable coverage period, the following matters may be relevant.</u> (a) <u>When a public sector entity or its controlling government does not have the practical ability under existing or substantively enacted legislation to deny or change promised benefits, it is indicative of an enforceable an indicator that an arrangement would be accounted for as an insurance contract.</u> (b) <u>When an individual or entity can identify That is, the policyholder has enforceable rights under the arrangement and the public sector entity has enforceable obligations for promised amounts or for amounts based on agreed parameters <u>that they will receive on the occurrence of specified events, it is indicative of an enforceable contract.</u></u>
[Aus]B16.15	Conversely, w <u>When a public sector entity or its controlling government has the practical ability under existing or substantively enacted legislation to retrospectively deny or change promised benefits or compensation, it indicates that an arrangement is not enforceable. For example, if an entity can retrospectively change the amount of benefits or <u>curtail</u></u>



compensation being paid to a beneficiary in relation to a past event under existing legislation, this ~~indicates is an indicator that~~ the arrangement would not be enforceable ~~accounted for as an insurance contract.~~

[Aus]B16.16 An arrangement that involves a public sector entity issuing documentation to another party, similar to an insurance contract issued by a private sector insurer, would be indicative of an agreement that creates enforceable rights and obligations. However, a substantive reliance on legislation or other regulation as a part of an arrangement would not necessarily be an indicator that the arrangement is unsuitable to be accounted for as an insurance contract. As emphasised in paragraph 2.1, ~~In~~ common with the private sector, arrangements need to be interpreted within a regulatory framework and, when applying this Standard, an entity is required to consider its substantive rights and obligations, whether they arise from a contract, law or regulation ~~under paragraph 2.~~

Question for Board members

Q6: Do Board members agree with the amended text in respect of ‘enforceability’ recommended by staff? If not, what alternative(s) would you suggest?

‘Coverage period’

20. Staff recommend the following amendments to the Aus/PBE paragraphs proposed in AASB ED 319/NZASB ED 2022-3:

Identifiable coverage period

[Aus]B16.10 An insurance contract has an identifiable coverage period – either the period during which insured events occur (losses-occurring coverage) or the period during which claims become known (claims-made coverage). ~~The coverage period might be explicitly stated in the contract or otherwise be determinable from the terms of the contract.~~

[Aus]B16.11 ~~The existence of an identifiable coverage period for~~ An indicator that a public sector entity’s arrangements is a strong indication that the arrangement would be accounted for as an insurance contract. ~~is the existence of an~~ When there is no identifiable coverage period for a public sector arrangement, that arrangement is not within the scope of this Standard.

[Aus]B16.1X In determining whether there is an identifiable coverage period, the following factors may be relevant:

- (a) There is documentation agreed to between individuals/entities and the public sector entity that identifies a period over which coverage is to be provided.
- (b) Individuals/entities pay a levy or premium that is associated with coverage for an identifiable period that may, for example, be identified in law or regulation.
- (c) A public sector arrangement is an adjunct, for example, based on law or regulation, to an insurance contract issued by another entity and a coverage period for the public sector arrangement can be determined by reference to the contract with the other entity.

[Aus]B16.12 The following are examples of circumstances that would be indicative of there not being an identifiable coverage period.

- (a) A public sector entity has an ~~Conversely,~~ open-ended arrangements to provide benefits based on eligibility criteria that relate to an individual’s inherent status, for example, age or disability ~~would not be accounted for as insurance contracts.~~
- (b) Individuals/entities are eligible for compensation based only on suffering loss from a natural disaster.



Question for Board members

Q7: Do Board members agree with the amended text in respect of ‘coverage period’ recommended by staff? If not, what alternative(s) would you suggest?

Source and extent of funding

21. Staff recommend the following amendments to the Aus/PBE paragraphs proposed in AASB ED 319/NZASB ED 2022-3:

Source and extent of funding

- [Aus]B16.17 Under an insurance contract, a policyholder usually pays premiums to an insurer. In most cases, the premiums are the primary source of funding the payment of any claims and the costs of operating the insurance business. Insurers usually also generate investment income and might sometimes receive supplementary contributions from governments, for example, such as those aimed at encouraging the use of private health insurance.
- [Aus]B16.18 When a public sector entity receives ‘premiums’ under an arrangement in exchange for accepting risks from those who stand to benefit, it is ~~an strong indication~~ that an arrangement gives rise to ~~would be accounted for as an~~ insurance contracts within the scope of [AASB 17/PBE IFRS 17]. The more direct the relationship between the participant who stands to benefit from an arrangement and the participant providing the funding the more indicative this would be of a policyholder-insurer relationship and a transaction that would be accounted for as an insurance contract.
- [Aus]B16.19 The individual or entity from which the public sector entity receives premiums does not need to be a direct beneficiary of the arrangement. Instead, they may be an indirect beneficiary. For example, when an entity receives levies from participants for the purpose of compensating other parties that might be damaged by the stakeholders’ actions, the benefit to the participants would often be that the damaged parties cannot seek compensation from them by other means.
- [Aus]B16.XX ~~Conversely, w~~When a public sector entity receives all of its funding from sources other than ‘premiums’ from policyholders (that is, sources such as recurring funding from general taxation), it is ~~an~~ primary indicator that arrangements would not be accounted for as insurance contracts.
- [Aus]B16.20 The lower the proportion of a public sector entity’s funding to meet benefits that is received in exchange for accepting risks from those who stand to benefit, the less likely it is that those arrangements would be accounted for as insurance contracts. For example, a co-payment that is intended to help ration services and is not intended to fully fund services is unlikely to indicate that arrangements would be accounted for as insurance contracts. When a public sector entity receives a significant portion of funding from sources such as general taxation, this would indicate that an arrangement does not give rise to insurance contracts within the scope of [AASB 17/PBE IFRS 17].
- [Aus]B16.21 Under most general insurance contracts issued by private sector insurers, in the event that a policyholder cancels its coverage prior to the end of the coverage period, the policyholder would ordinarily receive a pro rata premium refund, possibly adjusted for administrative costs. Although not all contracts issued by private sector insurers allow for refunds, the practice is indicative of insurance contracts. Accordingly, a public sector entity arrangement that allows for a refund of premium when the policyholder terminates the arrangement early, is an indicator that an arrangement would be accounted for as an insurance contract.



Question for Board members

Q8: Do Board members agree with the amended text in respect of ‘source and extent of funding’ recommended by staff? If not, what alternative(s) would you suggest?

Similarity of risks covered and benefits provided

22. Staff recommend the following amendments to the Aus/PBE paragraphs proposed in AASB ED 319/NZASB ED 2022-3:

Similarity of risks covered and benefits provided	
[Aus]B16.4	Under an insurance contract, significant insurance risk is transferred from an insured to an insurer. Private sector insurers accept a wide range of risks. These include risks relating to, for example: property loss, loss of income, professional and trade indemnity, public and legal liability, medical costs, mortality and disability. In the event that an insured event occurs, to the extent required under an insurance contract, the insurer would typically provide a benefit commensurate with the loss.
[Aus]B16.5	Many of the risks covered by private sector insurers are also the subject of social benefits provided by governments. Accordingly, judgement needs to be applied to determine the relevance of this <u>factor</u> indicator .
[Aus]B16.6	It is an indicator that a public sector entity’s <u>arrangements would give rise to be accounted for as insurance contracts within the scope of [AASB 17/PBE IFRS 17]</u> when they involve accepting risks and providing benefits that are the same as, or similar to, those offered by private sector insurers. In some cases, public sector entities operate alongside private sector insurers to accept risks and provide benefits that are the same, for example, in respect of employer liability for workers’ compensation risks.
[Aus]B16.7	In some cases, public sector entities are monopolies in their jurisdictions, and there are no relevant counterpart arrangements of private sector entities to consider. In these cases, consideration is given to whether a public sector entity’s arrangements involve accepting risks and providing benefits that are the same as, or are similar to, those offered by private sector insurers in other, similar, jurisdictions. In relation to other jurisdictions, only information that is ‘readily available’ need be considered. That is, public sector entities need not conduct an exhaustive search for counterpart arrangements.
[Aus]B16.8	In some cases there will be a clear similarity between the risks being accepted and the benefits being provided by a public sector entity and private sector insurers, and this is <u>a strong indication</u> of that a public sector entity’s arrangements would give rise to be accounted for as insurance contracts <u>within the scope of [AASB 17/PBE IFRS 17]</u> .
[Aus]B16.9	Conversely, the greater the level of dissimilarity between the risks accepted and benefits provided by a public sector entity and those offered by any relevant counterpart private sector insurer, the more likely it would be that the public sector entity’s arrangements would not <u>give rise to be accounted for as insurance contracts within the scope of [AASB 17/PBE IFRS 17]</u> .
[Aus]B16.X	<u>Public sector entities often fill gaps in a market left by the private sector because they pose the greatest risks and might be generally unprofitable or unsustainable for the private sector to cover. Of itself, the level of riskiness is generally not relevant to determining whether there is similarity between the risks covered and the benefits provided by public sector entities and private sector insurers. The similarity of the nature of the risks covered and benefits provided is the key focus. Accordingly, for example, the nature of a risk covered by a public sector entity and private sector insurers could be the same, even though the public sector insurer bears all of the most extreme risks.</u>



Question for Board members

Q9: Do Board members agree with the amended text in respect of ‘similarity of risks covered and benefits provided’ recommended by staff? If not, what alternative(s) would you suggest?

Management practices and assessing financial performance

23. Staff recommend the following amendments to the Aus/PBE paragraph proposed in AASB ED 319/NZASB ED 2022-3:

Management practices and assessing financial performance

[Aus]B16.22 ~~When other factors are not definitive, a relevant consideration for identifying an indicator that an public sector entity arrangement that would give rise to be accounted for as insurance contracts within the scope of [AASB 17/PBE IFRS 17] is whether be that the public sector entity has objectives, policies and processes for managing risks associated with that those arrangements and has its financial performance assessed against those objectives and how successfully it applies those policies and processes. In that context, the entity would be expected to conduct the following activities (either itself or via outsourcing):~~

- (a) underwriting and risk assessment;
- (b) managing the entity’s ‘capital’ based on the measurement of risks and uncertainties relating to coverage and incurred claims and their potential future impacts; and;
- (c) fair and prudent claims management;

~~The presence of all three of these factors is an indicator that those arrangements would be accounted for as insurance contracts. Conversely, the fewer of these three factors that are present, the less likely it would be for arrangements to be accounted for as insurance contracts.~~

[Aus]B16.XX In general, any public sector entity that is responsible for dispensing compensation [as an insurer or non-insurer] would be expected to have sound management practices and be assessed for their financial performance. However, this feature of some public sector arrangements is still regarded as a relevant consideration, in conjunction with other factors, to determine whether a public sector arrangement would give rise to insurance contracts within the scope of [AASB 17/PBE IFRS 17], when the other factors are not definitive.

[Aus]B16.XX In particular, it would imply that an arrangement involves insurance contracts when an entity assesses the relative riskiness of participants and prices coverage based on those assessments. This does not mean that an entity charging a standard amount to all participants, regardless of risk, is necessarily outside the scope of this Standard because some entities [even in the private sector] are subject to regulatory constraints on pricing [as acknowledged in paragraph 20⁷], for example, ‘community-rated’ pricing.

[Aus]B16.XX In addition, it would imply that an arrangement would give rise to insurance contracts within the scope of [AASB 17/PBE IFRS 17] when an entity manages claims in order to provide benefits commensurate with participants’ losses, rather than simply dispensing a fixed amount of compensation based on participants meeting specified eligibility criteria.

7 For the information of the Boards, AASB 17/PBE IFRS 17.20 says: If, applying paragraphs 14–19, contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity’s practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. The entity shall not apply this paragraph by analogy to other items.



Question for Board members

Q9: Do Board members agree with the amended text in respect of ‘management practices and assessing financial performance’ recommended by staff? If not, what alternative(s) would you suggest?

Assets held to pay benefits

24. Staff recommend the following amendments to the Aus/PBE paragraphs proposed in AASB ED 319/NZASB ED 2022-3:

Assets held to pay benefits

[Aus]B16.23 When other factors are not definitive, a relevant consideration for identifying a public sector entity arrangement that gives rise to insurance contracts within the scope of [AASB 17/PBE IFRS 17] is whether there is Consistent with the guidance above on ‘Management practices and assessing financial performance’, the existence of a separate fund, or earmarked assets, that are restricted to being used to pay benefits. Consistent with the guidance above on ‘Management practices and assessing financial performance’, the existence of such a fund or earmarked asset can be regarded as evidence that a public sector entity is operating and being managed as an insurer. The existence of a separate fund, or earmarked assets is also consistent with the guidance above on ‘Source and extent of funding’ because it would generally involve investing funds raised via premiums or levies received in exchange for accepting risks from those who stand to benefit.

[Aus]B16.24 ~~While the existence of a separate fund, or earmarked assets, that are restricted to being used to pay benefits is a feature of many types of some public sector arrangements that are not in the nature of insurance, However, the feature is still regarded as an indicator to be considered, in conjunction with other factors to determine whether a public sector indicators, that those arrangements gives rise to would be accounted for as insurance contracts within the scope of [AASB 17/PBE IFRS 17] when the other factors are not definitive. The alternative would be when a public sector entity receives its funding from sources such as general taxation, is an indicator that arrangements would not be accounted for as insurance contracts.~~

[Aus]B16.25 To be relevant, the separate fund, or earmarked assets need not be managed by the public sector entity itself. It is the existence of a separate fund, or earmarked assets, that is indicative, not the performance of investing activities.

Question for Board members

Q10: Do Board members agree with the amended text in respect of ‘assets held to pay benefits’ recommended by staff? If not, what alternative(s) would you suggest?



Appendix A: Draft flowchart for identifying public sector arrangements within the scope of AASB 17/PBE IFRS 17

