

BALLOT DRAFT: Fatal-Flaw Review Draft Standard

AASB Standard

AASB 2022-X
[Month] 2022

Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments

Questions for Board members

- Q1: Do Board members have any comments on the content of the draft Fatal-Flaw Review Draft Standard?
- Q2: Are Board members in favour of issuing the Fatal-Flaw Review Draft Standard?
- Q3: Are Board members in favour of a 60-day comment period, to align with the comment period of the forthcoming Exposure Draft that would propose public-sector-specific modifications to AASB 17 *Insurance Contracts*?

Obtaining copies of Accounting Standards

This Standard is available on the AASB website: www.aasb.gov.au.

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ACCOUNTING STANDARD

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[Draft] Australian Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* is set out on pages 5–13. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2022-X

This Standard makes amendments to the Australian pronouncements listed on page 5 of the Standard.

Main features of this Standard

Main requirements

AASB 17 *Insurance Contracts* was issued in 2017 and supersedes AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts* and Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* in respect of private sector entities and for-profit public sector entities. AASB 17 incorporates IFRS 17 *Insurance Contracts*, which applies to annual periods beginning on or after 1 January 2023. In respect of public sector entities, the AASB is proposing modifications to AASB 17 and to defer its application date to annual periods beginning on or after 1 July 2025.

This Standard makes amendments to the pronouncements listed on page 5 of the Standard so that public sector entities (both for-profit and not-for-profit) are permitted to continue to apply the following pronouncements to annual periods beginning on or after 1 January 2023 but before 1 July 2025:

- (a) AASB 4; and
- (b) AASB 1023.

This Standard also repeals AASB 1038 *Life Insurance Contracts* and supersedes Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* effective for annual periods beginning on or after 1 January 2023 on the basis that AASB 17 applies to those periods in respect of private sector entities and the pronouncements are not relevant to public sector entities.

Application date

This [draft] Standard applies to annual periods beginning on or after ... [1 January 2023], with earlier application permitted.

[Draft] Accounting Standard AASB 2022-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Keith Kendall
Chair – AASB

[Draft] Accounting Standard AASB 2022-X *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*

Objective

This Standard amends:

- (a) AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015);
- (b) AASB 3 *Business Combinations* (August 2015);
- (c) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (August 2015);
- (d) AASB 7 *Financial Instruments: Disclosures* (August 2015);
- (e) AASB 9 *Financial Instruments* (December 2014);
- (f) AASB 15 *Revenue from Contracts with Customers* (December 2014);
- (g) AASB 17 *Insurance Contracts General Insurance Contracts* (July 2017);
- (h) AASB 119 *Employee Benefits* (August 2015);
- (i) AASB 132 *Financial Instruments: Presentation* (August 2015);
- (j) AASB 136 *Impairment of Assets* (August 2015);
- (k) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015);
- (l) AASB 138 *Intangible Assets* (August 2015);
- (m) AASB 1057 *Application of Australian Accounting Standards* (July 2015); and
- (n) AASB 1058 *Income of Not-for-Profit Entities* (December 2016);

to permit public sector entities to continue applying AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* to annual periods beginning on or after 1 January 2023 but before 1 July 2025.

The amendments to AASB 17 in this Standard are to repeal AASB 1038 *Life Insurance Contracts* (July 2004) and supersede Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* (September 2004) effective for annual periods beginning on or after 1 January 2023.

Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of the other Standards set out in AASB 1057 *Application of Australian Accounting Standards*.

This Standard applies to annual periods beginning on or after ... [1 January 2023], with earlier application permitted.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* (July 2015)

In Appendix D, a heading and paragraph AusD4.1 are added. The deleted paragraph D4 is noted for reference.

Insurance contracts

D4 [Deleted]

AusD4.1 Public sector entities that are first-time adopters may apply the transitional provisions in AASB 4 Insurance Contracts and AASB 1023 General Insurance Contracts. AASB 4 restricts changes in accounting policies for insurance contracts, including changes made by a first-time adopter.

Amendments to AASB 3 *Business Combinations* (August 2015)

Paragraph Aus17.1 is added. Paragraph 17 is not amended but is included for reference.

Classifying or designating identifiable assets acquired and liabilities assumed in a business combination

...

17 This Standard provides an exception to the principle in paragraph 15:

(a) classification of a lease contract ...

(b) [deleted]

The acquirer shall classify those contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date).

Aus17.1 Public sector entities applying AASB 4 Insurance Contracts are not required to apply the principle in paragraph 15 to the classification of a contract as an insurance contract.

In Appendix B, paragraph AusB63.1 is added. Paragraph B63 is not amended but is included for reference.

Other Australian Accounting Standards that provide guidance on subsequent measurement and accounting (application of paragraph 54)

B63 Examples of other Australian Accounting Standards that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a business combination include:

(a) ...

(b) [deleted]

(c) ...

AusB63.1 For public sector entities, AASB 4 Insurance Contracts (when applicable) provides guidance on the subsequent accounting for insurance contracts acquired in a business combination.

Amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* (August 2015)

Paragraph Aus5.1 is added. Paragraph 5 and footnote 3 are not amended but are included for reference.

Scope

- ...
- 5 The measurement provisions of this Standard³ do not apply to the following assets, which are covered by the Australian Accounting Standards listed, either as individual assets or as part of a disposal group:
- (a) ...
- (f) groups of contracts within the scope of AASB 17 *Insurance Contracts*.
- Aus5.1 For public sector entities, the measurement provisions of this Standard³ do not apply to contractual rights under insurance contracts as defined in AASB 4 *Insurance Contracts* (when applicable).
- ...
- 3 Other than paragraphs 18 and 19, which require the assets in question to be measured in accordance with other applicable Australian Accounting Standards.

Amendments to AASB 7 *Financial Instruments: Disclosures* (August 2015)

Paragraphs Aus3.1 and Aus29.1 are added. Paragraphs 3 and 29 are not amended but are included for reference.

Scope

- 3 This Standard shall be applied by all entities to all types of financial instruments, except:
- (a) ...
- (d) insurance contracts as defined in AASB 17 *Insurance Contracts* or investment contracts with discretionary participation features within the scope of AASB 17. However, this Standard applies to:
- (i) derivatives that are embedded in contracts within the scope of AASB 17, if AASB 9 requires the entity to account for them separately.
- (ii) investment components that are separated from contracts within the scope of AASB 17, if AASB 17 requires such separation, unless the separated investment component is an investment contract with discretionary participation features.
- (iii) an issuer's rights and obligations arising under insurance contracts that meet the definition of *financial guarantee contracts* if the issuer applies AASB 9 in recognising and measuring the contracts. However, the issuer shall apply AASB 17 if the issuer elects, in accordance with paragraph 7(e) of AASB 17, to apply AASB 17 in recognising and measuring the contracts.
- (iv) an entity's rights and obligations that are financial instruments arising under credit card contracts, or similar contracts that provide credit or payment arrangements, that an entity issues that meet the definition of an insurance contract if the entity applies AASB 9 to those rights and obligations in accordance with paragraph 7(h) of AASB 17 and paragraph 2.1(e)(iv) of AASB 9.
- (v) an entity's rights and obligations that are financial instruments arising under insurance contracts that an entity issues that limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract,

if the entity elects, in accordance with paragraph 8A of AASB 17, to apply AASB 9 instead of AASB 17 to such contracts.

(e) ...

Aus3.1 Further to paragraph 3, public sector entities shall not apply this Standard to insurance contracts as defined in AASB 4 *Insurance Contracts* (when applicable). However, a public sector entity shall apply this Standard to financial guarantee contracts if the entity applies AASB 9 in recognising and measuring the contracts, in accordance with paragraph 4(d) of AASB 4.

...

Significance of financial instruments for financial position and performance

...

Fair value

...

29 Disclosures of fair value are not required:

- (a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables; or
- (b) [deleted]
- (c) [deleted]
- (d) for lease liabilities.

Aus29.1 For public sector entities applying AASB 4, disclosures of fair value are not required for a contract containing a discretionary participation feature (as described in AASB 4) if the fair value of that feature cannot be measured reliably.

Amendments to AASB 9 *Financial Instruments* (December 2014)

Paragraphs Aus2.1.2, AusB2.1.1 and AusB2.4.1 are added. Paragraphs 2.1, B2.1 and B2.4 are not amended but are included for reference.

Chapter 2 Scope

2.1 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) ...
- (e) rights and obligations arising under an insurance contract as defined in AASB 17 *Insurance Contracts*, or an investment contract with discretionary participation features within the scope of AASB 17. However, this Standard applies to: ...
- (f) ...

Aus2.1.2 Notwithstanding paragraph 2.1, public sector entities need not apply this Standard to rights and obligations arising under (i) an insurance contract as defined in AASB 4 *Insurance Contracts* (when applicable), other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract, or (ii) a contract that is within the scope of AASB 4 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of AASB 4 if the derivative is not itself a contract within the scope of AASB 4. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting that is applicable to insurance contracts, the issuer may elect to apply either this Standard or AASB 1023 *General Insurance Contracts* to such financial guarantee contracts (see paragraphs B2.5–B2.6). The

issuer may make that election contract by contract, but the election for each contract is irrevocable.

Scope (Chapter 2)

B2.1 Some contracts require a payment based on climatic, geological or other physical variables. (Those based on climatic variables are sometimes referred to as 'weather derivatives'.) If those contracts are not within the scope of AASB 17 *Insurance Contracts*, they are within the scope of this Standard.

AusB2.1.1 For public sector entities, contracts that require a payment based on climatic, geological or other physical variables and are not within the scope of AASB 4 *Insurance Contracts* or AASB 1023 *General Insurance Contracts* are within the scope of this Standard.

...

B2.4 This Standard applies to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2.1(e) excludes because they arise under contracts within the scope of AASB 17.

AusB2.4.1 For public sector entities, this Standard applies to the financial assets and financial liabilities of a public sector insurer, other than rights and obligations that paragraph Aus2.1.2 excludes because they arise under contracts within the scope of AASB 4.

Amendments to AASB 15 *Revenue from Contracts with Customers* (December 2014)

Paragraph Aus5.3 is added. Paragraph 5 is not amended but is included for reference.

Scope

5 An entity shall apply this Standard to all contracts with customers, except the following:

(a) ...

(b) contracts within the scope of AASB 17 *Insurance Contracts*. However, an entity may choose to apply this Standard to insurance contracts that have as their primary purpose the provision of services for a fixed fee in accordance with paragraph 8 of AASB 17;

(c) ...

Aus5.3 Further to paragraph 5, public sector entities shall not apply this Standard to insurance contracts within the scope of AASB 4 *Insurance Contracts* (when applicable).

Amendments to AASB 17 *Insurance Contracts* (July 2017)

In Appendix C, a heading and paragraphs AusC34.1 and AusC34.2 are added.

Withdrawal of AASB pronouncements

AusC34.1 This Standard repeals AASB 1038 *Life Insurance Contracts* issued in July 2004. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.

[Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

AusC34.2 When applied or operative, this Standard supersedes Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations*.

Amendments to AASB 119 *Employee Benefits* (August 2015)

Footnote Aus1 is added to the definition of 'qualifying insurance policy' in paragraph 8, following footnote 1.

Aus1 For public sector entities, a qualifying insurance policy is not necessarily an insurance contract, as defined in AASB 4 *Insurance Contracts* (when applicable).

...

Amendments to AASB 132 *Financial Instruments: Presentation* (August 2015)

Paragraphs Aus4.1, Aus4.2 and AusAG8.1 are added. Paragraphs 4 and AG8 are not amended but are included for reference.

Scope

4 This Standard shall be applied by all entities to all types of financial instruments except:

- (a) ...
- (d) insurance contracts as defined in AASB 17 *Insurance Contracts* or investment contracts with discretionary participation features within the scope of AASB 17. However, this Standard applies to: ...
- (e) [deleted]
- (f) ...

Aus4.1 **Public sector entities apply AASB 4 *Insurance Contracts* (when applicable) to insurance contracts as defined in AASB 4. However, this Standard applies to:**

- (a) derivatives that are embedded in insurance contracts within the scope of AASB 4, if AASB 9 requires the entity to account for them separately; and
- (b) financial guarantee contracts if an issuer applies AASB 9 in recognising and measuring the contracts, but AASB 4 shall apply if an issuer elects, in accordance with paragraph 4(d) of AASB 4, to apply AASB 4 in recognising and measuring them.

Aus4.2 **Public sector entities apply AASB 4 (when applicable) to financial instruments that are within the scope of AASB 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see AASB 9).**

...

Financial assets and financial liabilities

...

AG8 The ability to exercise a contractual right or the requirement to satisfy a contractual obligation may be absolute, or it may be contingent on the occurrence of a future event. For example, a financial guarantee is a contractual right of the lender to receive cash from the guarantor, and a corresponding contractual obligation of the guarantor to pay the lender, if the borrower defaults. The contractual right and obligation exist because of a past transaction or event (assumption of the guarantee), even though the lender's ability to exercise its right and the requirement for the guarantor to perform under its obligation are both contingent on a future act of default by the borrower. A contingent right and obligation meet the definition of a financial asset and a

financial liability, even though such assets and liabilities are not always recognised in the financial statements. Some of these contingent rights and obligations may be contracts within the scope of AASB 17.

AusAG8.1 For public sector entities, some of the contingent rights and obligations addressed in paragraph AG8 may be insurance contracts within the scope of AASB 4 (when applicable).

Amendments to AASB 136 *Impairment of Assets* (August 2015)

Paragraph Aus2.1 is added. Paragraph 2 is not amended but is included for reference.

Scope

- 2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**
- (a) ...
 - (h) **contracts within the scope of AASB 17 *Insurance Contracts* that are assets and any assets for insurance acquisition cash flows as defined in AASB 17; and**
 - (i) ...

Aus2.1 Public sector entities shall apply AASB 4 *Insurance Contracts* (when applicable) to deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of AASB 4.

Amendments to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (August 2015)

Paragraph Aus5.1 is added. Paragraph 5 is not amended but is included for reference.

Scope

- ...
- 5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:
- (a) ...
 - (e) insurance contracts and other contracts within the scope of AASB 17 *Insurance Contracts*;
 - (f) ...

Aus5.1 Public sector entities shall apply this Standard to provisions, contingent liabilities and contingent assets of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of AASB 4 *Insurance Contracts* (when applicable).

Amendments to AASB 138 *Intangible Assets* (August 2015)

Paragraph Aus3.2 is added. Paragraph 3 is not amended but is included for reference.

Scope

...

- 3 If another Standard prescribes the accounting for a specific type of intangible asset, an entity applies that Standard instead of this Standard. For example, this Standard does not apply to:
- (a) ...
 - (g) contracts within the scope of AASB 17 *Insurance Contracts* and any assets for insurance acquisition cash flows as defined in AASB 17.
 - (h) ...

Aus3.2 In respect of public sector entities, this Standard does not apply to deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of AASB 4 *Insurance Contracts* (when applicable). AASB 4 sets out specific disclosure requirements for those deferred acquisition costs but not for those intangible assets. Therefore, the disclosure requirements in this Standard apply to those intangible assets.

Amendments to AASB 1057 *Application of Australian Accounting Standards* (July 2015)

Paragraphs 5A, 6A and 11A are amended. Paragraphs 12 and 26 are deleted.

Application of Australian Accounting Standards

- 5A **AASB 4 *Insurance Contracts* applies to:**
- (a) **general purpose financial statements of each ~~not for profit~~ public sector reporting entity; and**
 - (b) **financial statements of each ~~not for profit~~ public sector entity that are, or are held out to be, general purpose financial statements;**
- in respect of annual periods beginning on or after 1 January 2023 but before 1 July 2025. However, a public sector entity may elect to apply AASB 17 *Insurance Contracts* instead of AASB 4.**
- ...
- 6A **AASB 17 *Insurance Contracts* applies as set out in paragraph 5, except when the entity is:**
- (a) **a superannuation entity applying AASB 1056; or**
 - (b) **a ~~not for profit~~ public sector entity.**
- However, a public sector entity may elect to apply AASB 17 instead of both AASB 4 and AASB 1023 *General Insurance Contracts*.**
- ...
- 11A **AASB 1023 *General Insurance Contracts* applies to:**
- (a) **general purpose financial statements of each ~~not for profit~~ public sector reporting entity; and**
 - (b) **financial statements of each ~~not for profit~~ public sector entity that are, or are held out to be, general purpose financial statements;**
- in respect of annual periods beginning on or after 1 January 2023 but before 1 July 2025. However, a public sector entity may elect to apply AASB 17 *Insurance Contracts* instead of AASB 1023.**
- 12 **~~[Deleted] AASB 1038 *Life Insurance Contracts* applies to:~~**
- (a) ~~— a life insurer; or~~
 - (b) ~~— the parent in a group that includes a life insurer;~~
- ~~when the entity is a not for profit public sector entity that:~~
- (c) ~~— is a reporting entity and prepares general purpose financial statements; or~~
 - (d) ~~— prepares financial statements that are, or are held out to be, general purpose financial statements.~~

Application of Australian Interpretations

- ...
- 26 ~~[Deleted] Interpretation 1047 Professional Indemnity Claims Liabilities in Medical Defence Organisations applies to entities that are or include medical defence organisations as follows:~~
- ~~(a) general purpose financial statements of each not for profit public sector reporting entity; and~~
 - ~~(b) financial statements of each not for profit public sector entity that are, or are held out to be, general purpose financial statements.~~

Amendments to AASB 1058 *Income of Not-for-Profit Entities* (December 2016)

Paragraph Aus7.1 is added. Paragraph 7 is not amended but is included for reference.

Scope (paragraphs B2-B11)

- 7 An entity shall apply this Standard to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives, and the receipt of volunteer services, except for:
- (a) ...
 - (c) contracts within the scope of AASB 17 *Insurance Contracts*;
 - (d) ...

Aus7.1 Further to paragraph 7, public sector entities shall not apply this Standard to insurance contracts within the scope of AASB 4 *Insurance Contracts* (when applicable).

Commencement of the legislative instrument

For legal purposes, the legislative instrument commences on ... [31 December 2022].