



Cover Memo

Project:	Insurance Activities in the Public Sector	Meeting:	AASB August 2022 (M189) NZASB August 2022 (M102)
Topic:	Consider stakeholder feedback	Agenda item:	AASB 4.1 NZASB 8.1
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:	18 July 2022
		Project priority	Medium
		Decision-making	High
		Project status	Feedback on AASB ED 319 / NZASB ED 2022-3

Objectives of this agenda item

1. The objectives of this agenda item are for the AASB and the NZASB to:
 - (a) CONSIDER comments received from stakeholders on AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector* relating to
 - (i) indicators for determining the public sector arrangements that are within the scope of AASB 17/PBE IFRS 17 *Insurance Contracts*;
 - (ii) risk adjustments for measuring insurance liabilities;
 - (b) DECIDE on the broad direction to take regarding (i) and (ii);
 - (c) CONSIDER two emerging issues on ‘adverse development covers’ and ‘investment components’;
 - (d) NOTE a matter relating to bank depositor compensation schemes; and
 - (e) NOTE that the due process for finalising the project may require the exposure of a revised draft Standard for comment.

Reasons for bringing this agenda item to the Boards

2. The Boards issued AASB ED 319/NZASB ED 2022-3 in March 2022 with a 90-day comment period ending on 8 June 2022.¹
3. Across the two jurisdictions, eleven comment letters 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. The

¹ The AASB project summary is available [here](#).



exception was selected feedback on risk adjustments, which is noted in Agenda paper AASB 4.3/NZASB 8.3.

4. The focus for this meeting is on the two issues that drew the most commentary and diversity in views:
 - (a) the indicators for determining the public sector arrangements that are within the scope of AASB 17/PBE IFRS 17; and
 - (b) risk adjustments for measuring insurance liabilities.

The staff are prioritising these topics to maximise the time available for Board deliberation on the most complex issues.

5. In addition, this meeting will discuss two emerging issues:
 - (a) adverse development covers; and
 - (b) investment components;

that the Boards may wish to address in a public sector context.

6. The other proposed modifications in the Exposure Drafts were generally well-supported by stakeholders and will be considered at the next meetings of the Boards. Those proposals related to:
 - (a) an exemption from sub-grouping onerous versus non-onerous contracts at initial recognition;
 - (b) an exemption from sub-grouping contracts issued no more than a year apart;
 - (c) an amendment to the initial recognition requirements so that they do not depend on when contracts become onerous;
 - (d) guidance on coverage periods, which has consequences for assessing eligibility for the premium allocation approach in a public sector context; and
 - (e) guidance on determining the cash flows within the contract boundary.

7. An emerging issue on ‘captive insurers’ will also be considered at the next meetings of the Boards.

Papers for this agenda item

AASB	NZASB	Document title
Agenda Paper 4.2	Agenda Paper 8.2	Indicators for determining which arrangements are within the scope of the Standard
Agenda Paper 4.3	Agenda Paper 8.3	Risk adjustments in measuring insurance liabilities
Agenda Paper 4.4	Agenda Paper 8.4	Emerging issues: adverse development covers, investment components
Agenda Paper 4.5 [in supplementary folder]	Agenda Paper 8.5 [in supplementary folder]	Comment letters received on AASB ED 319 and NZASB ED 2022-3
Agenda paper 4.6	Agenda paper 8.6	Bank depositor compensation schemes

Overview of staff recommendations

8. The following table provides a high-level summary of the staff recommendations in AASB Agenda Papers 4.2–4.4/NZASB Agenda Papers 8.2–8.4.

Agenda paper	Summary of staff recommendations
AASB 4.2/NZASB 8.2	<p>In respect of the proposed indicators for determining which arrangements are within the scope of AASB 17/PBE IFRS 17, staff recommend:</p> <ul style="list-style-type: none"> (a) retaining all the proposed indicators and not adding alternative indicators, but: <ul style="list-style-type: none"> (i) making the ‘identifiable coverage period’ and ‘enforceable nature of an arrangement’ indicators pre-requisites for applying AASB 17/PBE IFRS 17; and (ii) ranking the other indicators as primary and secondary indicators; (b) adding examples that would help identify when an arrangement is enforceable and when an arrangement has an identifiable coverage period; (c) adding guidance on the definition of ‘insurance contract’ in a public sector context; and (c) enhancing the guidance on features of a scheme that might not meet the indicators.
AASB 4.3/NZASB 8.3	<p>In respect of risk adjustments in measuring insurance liabilities, staff recommend:</p> <ul style="list-style-type: none"> (a) not to modify the requirements in AASB 17/PBE IFRS 17 to determine risk adjustments, but to require disclosure of the sensitivity of insurance liabilities to changes to the confidence level, such as plus or minus 10%; and (b) providing guidance to the effect that: <ul style="list-style-type: none"> (i) public sector entities that do not seek to be compensated for bearing risk in their pricing/funding would be expected to have zero risk adjustments in their liabilities for remaining coverage; (ii) some public sector entities may seek to be compensated for bearing risk, which would be determined based on identifiable facts and circumstances [such as pricing above break even] and, therefore, have risk adjustments above zero in their liabilities for remaining coverage; (iii) public sector entities that are not indifferent between fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that would generate fixed cash flows with the same expected present value, would be expected to have risk adjustments above zero [that is, use a confidence level above 50%] in measuring their liabilities for incurred claims; and



Agenda paper	Summary of staff recommendations
	(iv) public sector entities that are indifferent between fulfilling a liability that has a range of possible outcomes arising from non-financial risk and fulfilling a liability that would generate fixed cash flows with the same expected present value, would be expected to have zero risk adjustments [that is, use a 50% confidence level] in measuring their liabilities for incurred claims.
AASB 4.4/NZASB 8.4	In respect of the adverse development covers and the investment component issues, staff recommend to take no action, but to monitor the issues in respect of public sector entities.

The AASB’s due process

9. In accordance with paragraph 6.5(g) of the [AASB Due Process Framework for Setting Standards](#) (the Due Process Framework), the AASB is required to consider whether its proposals in an ED should be re-exposed for public comment prior to finalisation. Paragraph 7.7.1 of that framework outlines the criteria the AASB would use in making this determination, as follows:
 - (a) extent of new substantive issues not considered during the initial consultation (e.g. new requirements, terminology and/or examples);
 - (b) extent of change to original proposals (structural changes excluded);
 - (c) extent of input from interested parties and whether any key stakeholders have not provided input; and
 - (d) any new evidence on the extent and nature of the issue being addressed.
10. In addition, paragraph 7.6.7 of the Due Process Framework states that “Where there is some change from the ED but not enough to warrant re-exposure, a ‘fatal-flaw review’ version of a pronouncement may also be issued for a short period for public comment as a final opportunity to identify any further unintended consequences of the proposals, prior to voting by the Board.”
11. Based on the staff analysis included in the agenda papers for this meeting, staff consider that a re-exposure in the form of an ED is unlikely to be needed because staff regard the likely changes to the ED 319 proposals to be largely in line with the feedback received.
12. However, staff consider it is likely that the AASB would need to expose a fatal-flaw review draft version of the Standard to identify any further unintended consequences of the revisions made to the proposed indicators, and to the proposed guidance and disclosure requirements on risk adjustments.

The NZASB’s due process

13. The NZASB is required to consider whether its proposals in an ED should be re-exposed for public comment prior to finalisation. In making this determination the NZASB considers:
 - (a) extent of new substantive issues not considered during the initial consultation (e.g. new requirements, terminology and/or examples);
 - (b) extent of change to original proposals (structural changes excluded);
 - (c) extent of input from interested parties and whether any key stakeholders have not provided input; and



- (d) any new evidence on the extent and nature of the issue being addressed.
14. Based on the staff analysis included in the agenda papers for this meeting, staff consider that a re-exposure in the form of an ED is unlikely to be needed because staff regard the likely changes to the ED proposals to be largely in line with the feedback received and that key stakeholders have provided their input.
15. Rather than exposing a fatal-flaw review draft version of the Standard, staff consider that the NZASB could circulate a draft Standard for review with the affected stakeholders directly (given the limited number of stakeholders).

Proposed next steps and timeline

16. 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.
17. 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, only 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
Decide the Broad direction on the proposed indicators and risk adjustments	3 August 2022 meeting	11 August 2022 meeting
Consider feedback, analysis and recommendations on the remaining ED proposals outlined in paragraph 6 above Consider an emerging issue on captive insurers Consider staff's proposed changes to the draft Standard	21-22 September 2022 meeting	18 October 2022 meeting
Consider feedback on the Fatal-Flaw Review Draft Standard <i>AASB 2022-X Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments for Public Sector Entities [AASB only]</i>	21-22 September 2022 meeting	N/A
The AASB and NZASB (or their subcommittee) to approve issuing revised draft Standards for comment out of session. 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
The AASB and NZASB to: (a) consider stakeholder comments on the draft Standards; (b) vote on the ballot-draft Standards at their December 2022 meetings; and (c) publish the final Standards by 31 December 2022.	Planned 14-15 December 2022 meeting	Planned 14 December 2022 meeting

Question for Board members

Q1: Do Board members have any comments on the proposed next steps and timeline?



Appendix: List of respondents

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

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)