



26 May 2022

External Reporting Board  
PO Box 11250, Manners St Central,  
Wellington 6142.

Submitted via the online form

Attention: April Mackenzie

Dear April

**NZASB ED 2022-3 *Insurance contracts in the public sector***

Thank you for the opportunity to comment on Exposure Draft NZASB ED 2022-3 *Insurance contracts in the public sector*.

Our comment relates to Question 6 in the *Invitation to Comment* on Risk adjustment. Question 6 states:

**Risk adjustment**

6. The NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

**37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).**

In contrast, the AASB is proposing no modification to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

(a) Do you support:

(i) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims; or

(ii) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement?

Please provide your reasons.

(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

We do not support the NZASB proposed modification to include a rebuttable presumption requiring a risk adjustment that reflects an amount that is estimated to achieve a 75 % confidence level for a liability for incurred claims. We support the principles-based approach that makes no modifications to paragraph 37 of PBE IFRS 17 *Insurance contracts*.

Paragraph 37 allows a public sector entity to adjust the estimate of the present value of the future cash flows to reflect the compensation that it requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk. Paragraph 119 of PBE IFRS 17 requires an entity to disclose the confidence level used to determine the risk adjustment for non-financial risk, and if the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk,

it requires disclosure of the technique used and the confidence level corresponding to the results of that technique.

We consider that paragraph 37, together with the disclosure requirements in paragraph 119, is appropriate for public sector entities. We support the AASB's conclusions and reasons for public sector entities to apply AASB 17/PBE IFRS 17 with no modification (see paragraphs BC126-BC127).

Public sector entities that apply insurance accounting often levy the public. These levies should be set at amounts that are necessary to recover the expected costs of meeting outstanding claims. The central estimate is the most relevant amount for these expected costs. If levies are based on the central estimate, it does not make sense to require the entity to report a liability above this amount. Recognising a liability above the central estimate that is based on a conservative estimate of the liability means that the entity will recover levies and other funds at an amount over and above what it requires or expects to pay out in claims. We consider that this is inconsistent with the principle of inter-generational equity.

While we acknowledge the cost-benefit reasons for prescribing the rebuttable presumption in proposed paragraph 37.1, we do not consider the reason to be sufficiently compelling to justify why a public sector entity needs to include a 75 % confidence level, rather than using the central estimate, when measuring a liability for incurred claims.

If a rebuttable presumption was required, it would be preferable for the rebuttable presumption to be that no risk margin is included, and if this is rebutted, then the entity uses a 75% confidence level.

We recommend that:

- A public sector entity be required to apply PBE IFRS 17 without the proposed modification in paragraph 37.1; and
- Application guidance be included in PBE IFRS 17 to assist entities to determine when an estimate other than the central estimate would need to be used.

If you have any questions about our submission, please contact Lay Wee Ng, Technical Specialist, at [laywee.ng@oag.parliament.nz](mailto:laywee.ng@oag.parliament.nz).

Yours Sincerely,



Todd Beardsworth  
Assistant Auditor-General – Audit Quality



Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

via submission portal: <https://www.aasb.gov.au/current-projects/open-for-comment>

27 May 2022

Dear Keith

RE: Exposure Draft 319 *Insurance Contracts in the Public Sector* (“ED 319”) and AASB 2022-X *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments for Public Sector Entities* (“Fatal-Flaw Review Draft”)

I am responding to your invitation to comment on Exposure Draft 319 and the Fatal-Flaw Review *Draft* on behalf of PwC.

We welcome that the Board is aiming to address some of the unique complexities in applying AASB 17 Insurance Contracts to public sector entities, including the possible need for modifications to facilitate that application. We support the AASB’s proposals. We are of the view that it would be beneficial to have similar public sector arrangements accounted for under a consistent standard, rather than the current approach where some are accounted for under AASB 137 and others AASB 1023. We encourage the AASB to include the heads of treasury and relevant auditor generals, in their deliberations, to ensure the standard can be applied consistently and efficiently within the sector.

Our detailed feedback on the specific questions the Board has raised is provided in the appendix to this letter. We have appreciated the opportunity to discuss our firm views with the AASB team. For further discussion please reach out to Scott Hadfield, Sean Rugers or myself.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Regina Fikkers', written in a cursive style.

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Regina Fikkers  
Partner

## Appendix

### Comments on ED 319

#### Sub-grouping of contracts

- 1) *Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.*

We agree with the proposed amendments on the basis that many public sector contracts, particularly those where there are no private sector competitors, are not profit orientated entities and determine pricing with the aim to break even over the longer term. We also note that since investment returns will exceed risk free rates on an expected basis, most, if not all, groups of contracts will be onerous.

- 2) *Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.*

Agree with the proposed amendments. The key risks of a public sector entity are ensuring ongoing viability and funding, with less of a focus on an individual product or individual year group profitability.

#### Initial recognition when contracts are onerous

- 3) *Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.*

We agree with the proposed amendments. Practically it will ensure the standard is easier to apply where onerous contracts are more prevalent and enable recognition over the coverage period rather than “front end loading” many arrangements.

We have talked to the AASB team about the basis for conclusion including information about the difference between significant new policy directions such as the creation of NDIS which may be mentioned in an entity’s disclosures. This type of disclosure is already prompted in requirements for contingent liability disclosures. Versus regular renewal of monthly arrangements which are expected



to be onerous each month, and would be covered by this practicality exemption within AASB 17 for public sector which we support.

**Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA)**

- 4) *Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:*
- a) *assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;*
  - b) *a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;*
  - c) *any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;*
  - d) *arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:*
    - (i) *risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or*
    - (ii) *a broad government policy framework that includes considering general economic circumstances and community needs.*

*Please provide your reasons.*

We agree with the proposed amendments.

In the absence of the proposed guidance, some contracts may be viewed as having an indefinite term. Measuring such contracts as indefinite may not be practical and could result in misleading or inaccurate information being included in the financial statements.

Additionally, public sector insurers take a longer-term approach to pricing. Determining the contract boundary for public sector insurance contracts, in accordance with AASB 17.34(b)(ii) would require significant judgement and could result in frequent revisions in the original assessment made.

- 5) *Do you agree with the proposals to:*
- a) *require disclosure of information about the nature of the pricing process, including:*
    - (i) *the manner in which pricing/benefits are determined;*
    - (ii) *the timeframes for which they are typically determined; and*



- (iii) *any other relevant constraints under which an entity operates;*

*when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and*

- b) *permit the disclosure to be located either:*
  - (i) *in the notes to the financial statements; or*
  - (ii) *by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?*

*Please provide your reasons.*

We agree in principle to the disclosure objectives achieved via disclosing the nature of the pricing processes and being able to refer to other authoritative sources. The basis of conclusions may need to alleviate concerns and clarify the intention is not to require highly sensitive information where there is public versus private entities competing, but rather to have a better understanding of the entity or industry and how it operates.

### **Risk adjustment**

- 6) *The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.*

*In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.*

- a) *Do you support:*
  - (i) *the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or*
  - (ii) *the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?*

*Please provide your reasons.*

- b) *Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning?*



We do not disagree with the AASB proposal for not modifying the AASB 17 requirement for a risk adjustment. There is inherent risk in estimating these future cashflows and a risk adjustment acknowledges this.

While pragmatically we can see how a 75 per cent confidence level can be justified, as this is a principals based standard, we are not of the view a particular per cent should be legislated in the accounting standard. Significant judgement would need to be applied by public sector entities to determine the level of compensation they require for bearing the risk of uncertainty associated with liabilities for incurred claims. In the private sector risk adjustments have trended over time towards consistency. Guidance from APRA as to how they consider risk has also assisted this trend. We would encourage as part of the implementation process for the Heads of Treasury Accounting and Reporting Advisory Committee (HOTORAC) to do the analysis at the HOTORAC level and adopt something like the NZAB approach as part of their implementation process as it would provide for all public sector entities to:

- 1) have a consistent approach based on a common confidence level,
- 2) reduce report preparation costs by removing the need for management and auditors to determine/assess risk adjustments, and
- 3) better illustrate the impacts of any changes in risk adjustments, which provides useful information about changing levels of uncertainty about the amount and timing of cash flows over time.

### **Insurance contract indicators**

- 7) *The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators:*
  - a) *similarity of risks covered and benefits provided;*
  - b) *identifiable coverage;*
  - c) *enforceable nature of arrangement;*
  - d) *source and extent of funding;*
  - e) *management practices and assessing financial performance; and*
  - f) *assets held to pay benefits.*

*Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?*

We do not disagree with the AASB's approach towards identifying arrangements to which AASB 17 should apply to through a prescribed set of indicators.



Some indicators are more important than others. Indeed, some are necessary to make the application operational - such as having an enforceable arrangement and identifiable coverage, whereas others might rank equally and others such as e) and f) be possible indicators.

We do note that indicators e) and f) may lead to unintended outcomes such as an underfunded entity or one poorly managed not then applying the requirements of the standard.

The indicators do need to be grounded in the definition of insurance risk, to enable new types of insurance to be included over time. More guidance/examples would be valuable for consistent application.

- 8) *Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning*

We have not uncovered better alternative indicators.

- 9) *The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:*
- a) *which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?*
  - b) *would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?*

In response to 9 (a), we please see the list of indicators arranged in the descending order of importance.

- 1) Enforceable nature,
- 2) Identifiable coverage,
- 3) similarity of risks and benefits
- 4) source and extent of funding
- 5) management practices,
- 6) assets held.

Out of the indicators above, we consider the 'Identifiable coverage period' and the 'enforceable nature' to be pre-requisites for applying AASB 17.



### **Application date**

- 10) *Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.*

We do not disagree with the proposed mandatory application date. However, from our interactions with some of the Public sector insurers, it was evident that the field testing they had performed up to now on the implementation of the new Standard had yielded ambiguous results needing consideration and that the Standard would have a significant impact on their current scope of activities. Much resource is also being utilised in the private sector implementation, reducing capacity available. Given this situation, the Board should continue to monitor the application date over time.

### **Other modifications**

- 11) *Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them? Please provide your reasons.*

Nothing additional to add.

### **General matters for comment**

- 12) *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?*
- 13) *Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?*
- 14) *Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?*
- 15) *Whether the proposals are in the best interests of the Australian economy?*

Nothing further to add.



*16) Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative?*

No further comments.

## Other comments on the ED

### Drafting/editorial suggestions

We have summarised our editorial and drafting suggestions in the table below. Note that the wording that is subject or relevant to the corresponding comment has emphasis added and is underlined.

Paragraph ref.	Wording involved	Comments/remarks
Aus34.1	a public sector entity's monopoly position in providing coverage for risks in a <u><b>particular community</b></u> , of itself, would not affect the entity's practical ability to fully price for risks or benefits; and	Should this wording perhaps explain how a "particular community" is defined?
AusB16.20	The lower is 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 is it that those arrangements would be accounted for as insurance contracts. For example, <u><b>a co-payment</b></u> 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.	Should this wording be clarified to indicate that this co-payment is specifically from the policyholder?

### Matters related to the proposed amendments

We have summarised our comments on the ED that are not covered by any one particular question or areas where further clarification might be needed in the table below. Note that the wording that is subject or relevant to the corresponding comment has emphasis added and is underlined.

Paragraph ref.	Wording involved	Comment
AusB16.10	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	Consider discussing to what extent the insurer has to infer a term from a contract. One of the key characteristics of most insurance contracts is a defined term. Even for a product such as an ADC (Adverse

	explicitly stated in the contract or <b><u>otherwise be determinable from the terms of the contract.</u></b>	Development Cover) , where the term ends on the occurrence of a specified event in the future.
AusB16.15	<p><i>Enforceable nature of arrangement</i></p> <p>...</p> <p>Conversely, 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. <b><u>For example, if an entity can retrospectively change the amount of benefits or compensation being paid to a beneficiary in relation to a past event under existing legislation, this is an indicator that the arrangement would not be accounted for as an insurance contract.</u></b></p>	Consider whether there could be any unforeseen circumstances where insurers may rely on this example to justify scoping certain schemes/contracts out of AASB 17 scope.
AusB16.21	<p>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.</p>	Consider clarifying why this factor would distinguish insurance contracts from other service oriented contracts that span over an extended period of time.
AusB16.22	<p>An indicator that an arrangement would be accounted for as insurance contracts would be that the public sector entity has <b><u>objectives, policies and processes for managing risks associated with those arrangements and has its financial performance assessed against those objectives and how successfully it applies those policies and processes.</u></b></p>	Similar to the point above, consider clarifying why the factors in bold would distinguish insurers from other service providers of similar nature.

	<p>In that context, the entity would be expected to conduct the following activities (either itself or via outsourcing):</p>	
<p>BC31 (c)</p>	<p>All public sector entities should be exempted from AASB 17/PBE IFRS 17.16; however, require disclosure about the nature of the pricing process, <b><i>including constraints under which an entity operates to cross-subsidise different policyholder cohorts, that can lead to some groups of contracts being onerous.</i></b> This might provide additional relevant information about the impact of price constraints on each entity. However, it was acknowledged that the additional disclosure could be a burden and may already be readily available from other sources (although the burden might be mitigated by permitting disclosure by cross-reference).</p>	<p>Consider where this disclosure could be practically challenging if one group of policyholders is cross-subsidising another. The challenge will be in the level of detail required and the sensitivity to policy of the information.</p>

AC-2

June 2022

Ms April MacKenzie  
Chief Executive  
External Reporting Board  
PO Box 11 250  
Manners Street Central  
Wellington 6142

Dear April

**ED NZASB 2022-3 –INSURANCE CONTRACTS IN THE PUBLIC SECTOR**

Thank you for the opportunity to comment on ED NZASB 2022-3 –Insurance Contracts in the Public Sector.

Treasury is broadly supportive of the proposed standard, as are the entities we have discussed it with. In those discussions we considered three main issues:

- *Identifying Insurance in the Public Sector:* We have made some suggestions to refine the definition of an insurance contract, clarify the application guidance and ensure that the definition and the guidance hang together better.
- *Determining the coverage period:* We have made some suggestions to mitigate a risk that we observe with the current proposals.
- *Adjusting the measure of the insurance contract liability for risk:* We have provided our analysis of this issue, with two resulting options for the Boards to consider. We have indicated our preferred option but believe either option is superior to the split alternatives the Boards have presented.

Our response to NZASB's specific questions is provided in the enclosure.

We are very happy to discuss these suggestions with the NZASB and staff further.

Yours sincerely

Jayne Winfield  
Chief Government Accountant

## Treasury's Response to Questions in Invitation to Comment on NZASB ED 2022-3

1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.

The Treasury agrees with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context.

In addition to the basis for conclusions arguments in the exposure draft, the Treasury observes that insurance arrangements in the public sector are often established as a statutory scheme, comprising not a set of voluntary contracts that can be sensibly grouped, but rather a single 'social contract' in which the public sector reporting entity (or issuer) in return for the receipt of compulsorily levied premiums, accepts risk from a policyholder group by agreeing to compensate the individuals within that group if a specified uncertain future event adversely affects them. It is the performance of that social contract that is of interest to users of the financial statements, and that would not be enhanced (and in fact would be hampered) by requiring the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition.

2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.

The Treasury agrees with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context.

This view logically follows from our response to Question 1.

3. Do you agree with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.

The Treasury agrees with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous.

This view logically follows from our response to Questions 1 and 2.

4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the Boards' proposals to provide guidance that:
  - (a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;

- (b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;
- (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;
- (d) arrangements would not be regarded as failing to meet the criterion in PBE IFRS 17.34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:
  - (i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or
  - (j) a broad government policy framework that includes considering general economic circumstances and community needs.

Treasury agrees with the proposed guidance on coverage periods. However, we do not think it is sufficient.

Our understanding of the principle, that the guidance is intended to support, is that the boundary when a coverage period ends is when the entity has the practical ability to reassess the risks and, as a result, can set a new price or level of benefits that fully reflects that reassessment. Treasury agrees that this is a sensible principle.

What we are observing in practice is that while the government has the ability to set a new price or level of benefits on an annual basis in accordance with constitutional and budgetary conventions, as a matter of good policy, we are tending towards institutionalising two-to-five year funding/pricing reassessments. On the one hand this provides certainty on levies to the affected constituency and the consultation process is too costly to do annually, but on the other hand a medium-term planned reassessment promotes good stewardship. An example of this trend can be seen in the Natural Hazards Bill currently before the Parliament which institutes a five-year funding review.

However, while the *practice* of multi-year pricing assessments may be becoming the norm, the *practical ability* to do an annual assessment remains. Under the current guidance Treasury can foresee that there may be significant challenge for preparers (and opportunities for protracted disagreement with auditors) in debating and proving whether the practice of multi-year pricing assessments constrains the practical ability to do annual assessments. We do not think such debate is helpful, nor should the standard add further to the transaction costs of insurance accounting.

We therefore propose an additional guidance proposal on coverage periods, that:

- The practice of multi-year funding/pricing assessments does not, of itself, constrain the practical ability of a public sector entity to more frequently change prices and benefits of insurance arrangements.

Subsidiary guidance could explain that where there is some legislative constraint on public sector entities reviewing prices, then that will be relevant to the determination of the coverage period, but in the absence of such constraint, then constitutional and budgetary norms would apply.

5. Do you agree with the proposals to:

- a) require disclosure of information about the nature of the pricing process, including:
  - i. the manner in which pricing/benefits are determined;
  - ii. the timeframes for which they are typically determined; and
  - iii. any other relevant constraints under which an entity operates;

when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

- b) permit the disclosure to be located either:
  - i. in the notes to the financial statements; or
  - ii. by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time? Please provide your reasons.

The Treasury agrees that these disclosures should be helpful to users

6. The NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).

In contrast, the AASB is proposing no modification to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

- a) Do you support:
  - i. the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims; or
  - ii. the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement?

Please provide your reasons.

- b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

The current risk adjustment for insurance liabilities in the Financial Statements of Government adds over \$6 billion to the government's liabilities. A similar number is likely to be calculated under the NZASB's proposal using a rebuttable presumption of a 75 per cent confidence level for a liability for incurred claims. Preparers, auditors, and users need to be

very clear about the purpose of the IFRS 17 risk adjustment in the public sector and the usefulness of such an adjustment to users of public sector financial statements.

Under the current proposed standard, the Treasury does not think that is the case.

Our analysis of the proposals suggests two conflicting rationales for the adjustment. That in turn leads to two different interpretations of risk adjustments for public sector insurance arrangements in the proposed ED.

Despite the benefit of lower cost, the NZASB proposal leaves unclear what the adjustment achieves. Neither interpretation would necessarily result in the application of a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75% probability of liability for incurred claims.

The AASB proposal in our view is likely to lead to unnecessary and costly debates between preparers and auditors and confusion among users. We therefore believe the joint standard setters need to clarify the principle itself in respect of public sector insurance schemes because of the conflicting rationales we see in the proposed standard.

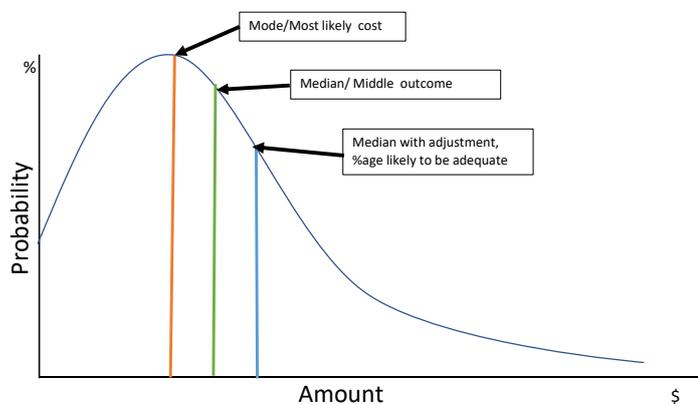
#### *First Rationale: Risk adjustment as an allowance for uncertainty*

AG89 states

“The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk.”

This purpose is further supported in the IASB’s basis of conclusions (BC211) which suggests the risk adjustment distinguishes risk-generating liabilities from risk-free liabilities. An explicit measurement of the non-financial risk associated with the entity’s insurance contracts that will provide a clearer insight into the entity’s view of the economic burden imposed by the non-financial risk.

That economic burden requires insurers to be prudent in the measurement of insurance liabilities. This suggests that the proposals mean that the amount that provides the fairest reflection of the liability would include a risk adjustment for the “uncertainty in the cash flows that arises”. We find the following chart helpful in explaining how we think about this idea.



Such a risk adjustment should be impacted by the extent of the uncertainty – liabilities with ‘fat tails’ where there are significant probabilities of extreme values, such as EQC’s

insurance liability, would have a higher risk adjustment than those that do not, such as ACC. This interpretation however would not be impacted by the risk appetite of the entity or degree of compensation the entity seeks.

Using this logic, public sector entities would report a risk adjustment similar to the approach that is currently used with PBE IFRS 4. We think it would be similar, rather than the same because, while a risk margin adopted for regulatory purposes is generally accepted under PBE IFRS 4, we doubt this would be the case under ED 2022-3, noting IASB's statement in BC209(b) that a regulatory approach is not compatible with the IASB's objectives.

If the boards think this approach is appropriate, we would suggest redefining the risk adjustment to something like the "the amount the public sector insurer would rationally expect to pay to be relieved of the risk that the ultimate fulfilment cash flows may exceed those expected". Preparers could be required to disclose how they have determined this amount, referring to the level of prudence required as a consequence of the nature of the uncertainties in the insurance liability. We suspect the result would not be significantly different to the current measures under PBE IFRS 4.

#### *Second Rationale: Risk adjustment as a compensation for uncertainty*

The actual definition of the risk adjustment in the proposed standard is

"the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts"

and application guidance AG87 states:

"The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between:

- (a) fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and
- (b) fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts."

AG87 also advises:

"As a result, the risk adjustment for non-financial risk conveys information to users of financial statements about the amount charged by the entity for the uncertainty arising from non-financial risk about the amount and timing of cash flows"

Inevitably that brings the entity's risk appetite into the calculation. The Treasury observes that there is likely to be a significant difference in risk appetite between profit-oriented entities and public sector entities pursuing public benefit.

A profit-oriented entity will naturally require compensation for assuming the risk in the insurance contract; not to do so would be in conflict with its objectives. However, for public sector entities seeking to improve the wellbeing and resilience of insured groups, any compensation for the risk it is assuming is likely **to be in conflict** with those wellbeing and resilience objectives.

Consequently, for example, it is observable that with ACC and EQC, the pricing and funding of levies does not include an element to compensate for risk, but rather is more likely to

include a subsidy for accepting the risk. The entity is indifferent, in part because of the government guarantee, and the statutory ability to adjust future prices to make up for higher-than-expected past claims. At the whole-of-government level is indifferent because of its ability to spread the risk to the general tax base.

Applying this rationale, we conclude that public sector entities should only make a risk adjustment if we are prepared to charge for it, and in doing so, seek to be compensated for it. Using this logic, most NZ public sector insurers would not report a risk adjustment, or the risk adjustment would be deemed to be zero.

The Treasury is aware of arguments made to the *Transition Resource Group (TRG)*<sup>1</sup> that the recognition of the risk adjustment under IFRS 17 is not linked to what is actually charged when it comes to pricing. Pricing is influenced by other legal, commercial or regulatory factors than just risk analysis. Thus the definition of the risk adjustment centres on what “compensation that the entity would require ... for bearing non-financial risk” not what it actually requires. However, we do not think this changes our logic above – public sector entities seeking to accept risk, and therefore increase the resilience of their policyholder group, would not require compensation in the same way as profit-oriented entities.

#### *Implication for the proposed standard*

Our conclusion from the above logic is that a public sector amendment is appropriate for the proposed standard. The public sector difference arises because public sector entities seeking to improve wellbeing and resilience of policyholder groups do not require compensation for bearing the uncertainty related to insurance contract liabilities. The NZASB needs to clarify the principle between the first rationale and the second rationale described above. Both rationales, which are in conflict for public sector entities, appear valid under the proposals.

Illustrating the problem further, we note that in BC126 the AASB has observed ...

- under AASB 17, public sector entities might determine a zero risk adjustment on the basis that they are monopolies and can adjust future prices to make up for higher than expected past claims;
- under AASB 17, public sector entities might determine a risk adjustment based on a particular level of adequacy based on their facts and circumstances; and

... but doesn't provide clarity on when those very different alternatives would apply.

If the NZASB considers it appropriate for a risk adjustment for public sector entities to prudently make an allowance to represent the uncertainty in fulfilling the liability (as described in the first rationale above), the definition of the risk adjustment should be reworded in such cases to reflect that, and additional guidance provided to assist on its calculation. This is option one in our view.

Under the second option, if the risk adjustment is simply an expression of the compensation required due to the uncertainty in fulfilling the liability (as described in the second rationale above), additional application guidance should be provided to assist preparers who do not

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<sup>1</sup> The TRG is an IASB supported group of industry experts involved in IFRS 17 implementation, to respond to the implementation questions raised by constituents and share their views on the accounting analysis. , <https://www.ifrs.org/content/dam/ifrs/meetings/2018/may/trg-for-ifs-17/ap02-risk-adjustment-in-a-group-of-entities.pdf>

require compensation. The guidance should explicitly allow for a zero-risk adjustment and may include additional sensitivity disclosures, so the effect of the uncompensated uncertainty is made clear.

On balance Treasury prefers the second option. That seems to us to provide the cleanest and most understandable position for preparers, auditors and users. However, we would prefer the first option to the rebuttable presumption that is currently proposed in ED 2022-3, paragraph 37.1.

7. The Boards propose that the public sector arrangements to which PBE IFRS 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AG16.1 to AG16.25]:
- a. similarity of risks covered and benefits provided;
  - b. identifiable coverage;
  - c. enforceable nature of arrangement;
  - d. source and extent of funding;
  - e. management practices and assessing financial performance; and
  - f. assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?

The Treasury believes that guidance as to whether a public sector insurance scheme is and should be within the scope of the proposed standard is an area that needs more critical attention.

The proposed standard defines an insurance contract, and then provides proposed indicators for making a collective assessment whether a public sector arrangement will be assessed as an insurance contract. We agree that the structure is appropriate, but we think further work is needed on the definition, on the indicators, and the connection between them.

The proposed definition of an insurance contract is “a contract under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.” The challenge with this definition is that the essential elements of a contract may not be in place where the insurance scheme is statutorily defined, and the levies and compensation are regulated, and also when the party paying for the insurance is not the same as the policyholder group that is compensated. Despite the indicators we consider that the proposed definition needs to be widened to bring public sector insurance schemes appropriately into scope. Our proposed definition is:

An insurance contract is a contract *or statutory arrangement* under which one party (the issuer) accepts significant insurance risk from another party *or group* (the policyholder *or policyholder group*) by agreeing to compensate policyholders *or other affected parties* if a specified uncertain future event (the insured event) adversely affects policyholders *or those other affected parties*.

To illustrate, currently ACC appropriately accounts for its activities as insurance. This is despite ACC being non-voluntary, and despite compensation not being dependent on a risk transfer payment (levy or premium) being paid. The definition in the standard is simply not

met, and the current application guidance with the proposed indicators does not change that fact.

If those adjustments are made to the definition, the application guidance on the proposed indicators, particularly (a.) and (d.) could be better connected to the definition.

We comment further on the indicators, in response to question 8. below.

8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning

On indicator (a.) Treasury considers this could be better connected to the definition if the word compensation was used. Treasury also notes that this indicator seems to have two elements:

- Similarity or comparability between the risks and the benefits
- Similarity with comparable private sector insurance contracts.

We believe these two facets could be better explained in the application guidance. We note that often a feature of public sector insurance contracts is that they fill a 'protection gap' that would otherwise not be met by insurance markets. In our view, this is a rationale for inclusion rather than exclusion from the standard.

Treasury has a number of recommendations to improve the discussion of the indicators consistent with our earlier recommendations. These are included in the annex to this submission.

9. The proposed paragraph AG16.2 requires that the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

- (a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?
- (b) would you identify some indicators as pre-requisites for applying PBE IFRS 17 and, if so, which ones, and why?

Treasury does consider that some indicators represent essentially binary decisions – if the indicator is not present insurance accounting cannot be applied, a second group of indicators require greater judgement or assessment, with a rebuttable presumption that if the judgement is positive insurance accounting should be applied, and a third group that is useful to enhance the judgement from the first two set of indicators.

In the first category we would have b. (identifiable coverage period) and c. (enforceable nature of arrangement). These are necessary. If an identifiable coverage period cannot be determined and the rights and obligations are not enforceable it is not possible to apply insurance accounting sensibly.

In the second category we would have d. (source and extent of funding) and e.(management practices and assessing financial performance). If the judgement made of these indicators is positive, then there is likely to be user interest in the results of insurance accounting.

In the third category we would have a. (similarity of risks covered and benefits provided) and f. (assets held to pay benefits). While the presence of these indicators is supportive of the view that insurance accounting is appropriate, Treasury does not believe their absence would be fatal to the application of insurance accounting.

We suggest the Boards consider whether they agree with this assessment and clarify their position.

10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons

If the standard is issued prior to 1 January 2023, improved in accordance with our recommendations, we would agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted. If however those conditions are not met, Treasury would suggest deferring the standard application date.

11. Do you consider there should be any further modifications to PBE IFRS 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them? Please provide your reasons. Please note that the Boards considered, but rejected, proposing modifications to PBE IFRS 17 in respect of public sector arrangements on the following topics:

- a. specifically exempting 'captive' public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements [paragraphs BC228 to BC236];
- b. discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC237 to BC259];
- c. the measurement of investments backing insurance liabilities [paragraphs BC260 to BC265]; and
- d. classification and presentation of risk mitigation program and other similar costs [paragraphs BC266 to BC273]. 38 to 39 12

The Treasury sees no public-sector rationale for modifications to PBE IFRS 17 in respect of the topics considered by the Boards

12. Do you have any other comments on the ED?

No

## ANNEX

### SUGGESTED IMPROVEMENTS TO INDICATORS OF PUBLIC SECTOR INSURANCE STANDARDS

#### Identifying Insurance Contracts in a Public Sector Context

AG16.1 The guidance in paragraphs AG7 to 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, and because these are often statutory arrangements to insure specified populations, additional guidance is needed to identify insurance contracts in a public sector context.

AG16.2 Governments often ~~arrange to accept significant risk provide support as a result~~ effor events that adversely 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 indicators outlined in paragraphs AG16.4 to AG16.25-XX are considered collectively so that a balanced judgement can be made.

AG16.3 ~~Some of the i-Individual indicators are Indicators of conditions that are necessary to apply insurance accounting. If the indicator is not met, insurance accounting is likely to be impossible. A second group of indicators is focussed on whether insurance accounting should be applied. If these indicators are met, insurance accounting is likely to be appropriate. The third group of indicators add qualitative considerations to the previous indicators. If these indicators are met, that would support the use of insurance accounting. However, absence of these indicators does not preclude insurance accounting being applied. would not necessarily be regarded as definitive in determining whether public sector arrangements would be accounted for as insurance contracts.~~

#### Indicators of conditions that are necessary to apply insurance accounting

##### **Identifiable Coverage Period**

AG16.XX An insurance contract or applicable statutory arrangement 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 or statutory arrangement.

AG16.XX An indicator that a public sector entity's arrangements would be accounted for as insurance contracts is the existence of an identifiable coverage period.

AG16.XX Conversely, open-ended arrangements to provide benefits based on eligibility criteria would not be accounted for as insurance contracts.

##### **Enforceable Nature of Arrangement**

AG16.XX Under AASB Standards and NZ IFRS, a contract is an agreement between two or more parties that creates enforceable rights and obligations. An insurance contract is a contract or statutory arrangement under which one party or group (the 'insurer') accepts significant insurance risk from another party (the 'insured') by agreeing to compensate the

insured or other affected party if a specified future event adversely affects the insured or other affected party.

AG16.XX 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 an indicator that an arrangement would be accounted for as an insurance contract. 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.

AG16.XX Conversely, 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 compensation being paid to a beneficiary in relation to a past event under existing legislation, this is an indicator that the arrangement would not be accounted for as an insurance contract.

AG16.XX 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 that arrangement would not necessarily be an indicator that the arrangement is unsuitable to be accounted for as an insurance contract. In common with the private sector, arrangements need to be interpreted within a regulatory framework and, when applying AASB 17/PBE IFRS 17, an entity is required to consider its substantive rights and obligations, whether they arise from a contract, law or regulation ~~under paragraph 2~~.

## Indicators of conditions that indicate insurance accounting should be applied

### **Source and Extent of Funding**

AG16.XX 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.

AG16.XX When a public sector entity receives 'premiums' under an arrangement in exchange for accepting risks from those who stand to benefit, it is an indicator that an arrangement would be accounted for as an insurance contract. The more direct the relationship between the participant or participant group that ~~who~~ stands to benefit from an arrangement and the participant or participant group 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.

AG16.XX Conversely, when a public sector entity receives all of its funding from sources other than the 'premiums' from policyholders (that is, sources such as recurring funding from general taxation), it is an indicator that arrangements would not be accounted for as insurance contracts.

AG16.XX It is not necessary that the policyholder or policyholder group paying premiums or statutory determined levies is the same as the policyholder or policyholder group making claims for compensation. However, tThe lower is the proportion of a public sector entity's

funding to meet **benefits-claims** that is received in exchange for accepting risks from those who stand to benefit, the less likely is it 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.

AG16.XX Under most general insurance contracts issued by private sector insurers, in the event that an insured 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.

### ***Management Practices and Assessing Financial Performance***

AG16.XX An indicator that an arrangement would be accounted for as an insurance contract would be that the public sector entity has objectives, policies and processes for managing risks associated with 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.

### **Indicators of conditions that enhance the view that insurance accounting should be applied**

#### ***Similarity of Risks Covered and **Benefits-Compensation** Provided***

AG16.XX 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-compensation** commensurate with the loss. **Compensation would not typically exceed the loss, nor would the compensation payment be unrelated to the amount lost.**

AG16.XX 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 indicator.

AG16.XX It is an indicator that a public sector entity's arrangements would be accounted for as insurance contracts when they involve accepting risks and providing **benefits compensation** 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.

AG16.XX 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 other cases, public sector entities may provide insurance cover as a 'protection gap' for risks that for fat-tail insurance that exceed the risk appetite of private insurers in their jurisdiction. In these cases, consideration is given to whether a public sector entity's arrangements involve accepting risks and providing benefits-compensation that are the same as, or 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.

AG16.XX In some cases there will be a clear similarity between the risks being accepted and the compensation benefits being provided by a public sector entity and private sector insurers, and this is an indicator that a public sector entity's arrangements would be accounted for as insurance contracts.

AG.16.XX In other cases public sector entities will provide complementary insurance in addition to private sector insurers, accepting risks and providing compensation that otherwise would not be offered by the market, or would otherwise be considered unaffordable by the desired group to be insured. The complementarity of such arrangements is an indicator that a public sector entity's arrangements would be accounted for as insurance contracts.

AG16.XX Conversely, the greater the level of dissimilarity between the risks accepted and compensation 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 be accounted for as insurance contracts.

### ***Assets Held to Pay Benefits***

AG16.XX 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-compensation 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.

AG16.XX While the existence of a separate fund, or earmarked assets, that are restricted to being used to pay benefits is a feature of some public sector arrangements that are not in the nature of insurance, the feature is still regarded as an indicator, in conjunction with other indicators, that those arrangements would be accounted for as insurance contracts. The alternative would be when a public sector entity receives its funding from sources such as general taxation, which is an indicator that arrangements would not be accounted for as insurance contracts

AG16.XX 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.



# icare response to ED319 on AASB17

June 2022



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## Executive Summary

This paper is in response to the Australian Accounting Standards Board’s (AASB) request for comments on the Exposure Draft 319 in respect of proposed modifications to AASB 17 *Insurance Contracts* for the public sector.

## Background

The AASB introduced the Australian Accounting Standard 17 Insurance Contracts (AASB17) in May 2017 with an effective date of 1 January 2023. It is not currently applicable for the public sector.

The Australian Accounting Standards Board (AASB) issued an Exposure Draft of proposed amendments to AASB 17 for comment by 8 June 2022 (Appendix A). The intent of the proposed amendments appears to be the uniform application of AASB 17 on all insurance and ‘insurance like’ public sector schemes.

We support AASB’s objective of uniform application of accounting standards where it is in the best interest of the economy and the cost of implementation is justified by the value provided to the users of the accounts. We also urge the AASB to consider the legislative construct of public schemes in applying the appropriate accounting standard.

As an example, the prudential framework that private sector insurance companies operate under in Australia is regulated by APRA. Federal legislation enables APRA to apply a uniform prudential framework across the country. Public sector insurance schemes are enabled by legislation enacted by each state. There are fundamental differences in the governance frameworks and enabling legislation across the various jurisdictions in Australia.

A comparison to icare’s counterparts in Victoria illustrates this:

Fund type	Self-Insurance		Lifetime Care and Support	
	NSW	VIC	NSW	VIC
Fund Name	Treasury Managed Fund	Victorian Managed Insurance Authority	Lifetime Care New South Wales	Transport accident commission
Description	The NSW government’s self-insurance scheme guaranteed by NSW Treasury.	VMIA is the Victorian Government’s insurer, covering the projects, workers compensation and general insurance.	The Lifetime Care and Support Scheme pays for treatment, rehabilitation and care for people who have been severely injured in a motor accident in NSW.	The TAC covers those who have been injured on our roads in Victoria.
Applicable accounting standard	AASB 137	AASB 1023	AASB 137	AASB 1023
Legislative requirement to apply a PoA	Not required under legislation as there is an explicit guarantee from the NSW Government	75% based on Victoria’s Prudential Standard	Not required under legislation	75% based on Victoria’s Prudential Standard

Is there a contract issued with a clearly defined contract boundary	No	Yes	No	Yes

**General matters for comment (Q12-16)**

**The Australian Accounting Standards Board has requested an indication of the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative?**

**In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).**

ED319 as it stands implies that there is a high likelihood that arrangements that are not classified as insurance will fall within the scope of the public sector equivalent AASB 17 standard. This will result in the implementation and ongoing costs of these public benefit schemes increasing significantly. This includes but is not limited to the ongoing cost of actuarial and audit services provided to the schemes - these have not been quantified.

The introduction of a risk margin for schemes currently accounted for under AASB137 would require funding to be increased to account for the higher level of assets that are required to be held. These requirements are indicatively: -

Scheme	Impact
Lifetime Care and Support Authority	\$1.7 billion at a PoA of 75%
Treasury Managed Fund	\$1.7 billion at a PoA of 75%
Workers Compensation Dust Diseases Authority	\$0.1 billion at a PoA of 75%
Motor Accident Benefits Fund	\$0.14 billion at a PoA of 75%

The inclusion of a risk margin will have an adverse impact on the funding required by the schemes which will result in either Government funding redirected that could be used for the betterment of the NSW economy or an increase in the levies imposed on motorists or employers being held in deposit to meet the requirements of the new accounting standard.

This \$3.64 billion could be used for essential services necessary for the ongoing running and development of the State, such as building more schools and hospitals. Locking this away to comply with an accounting standard could not reasonably be considered in the public interest or in the best interests of the Australian economy.

Our initial estimates suggest that CTP Insurers in NSW will have to increase the annual CTP levy by approximately \$425 per car to fund the risk margin should Lifetime Care have to comply with the requirements of AASB 17. The

above cost increase will put significant pressure on household budgets, particularly in an environment where inflation and interest rates are increasing relative to real wages. This will also significantly impact NSW communities ability to recover from the economic impacts of COVID.

icare is governed by a governing board. It is the board's responsibility to ensure the schemes can operate on a going concern basis. The directors may not be able to sign the accounts on a going concern basis if we introduce an increase in the liability by \$3.64 billion without appropriate asset backing.

The proposals will potentially create audit and assurance challenges on the introduction of AASB17. We anticipate challenges and differences in interpretations between the scheme and the assurance team where the interpretation of the standard requires significant levels of judgement. We see this as a particular challenge with the ambiguity on guidance on scope.

In addition, the cost of implementing a AASB 17 compliant reporting solution for the schemes we believe should be within scope of the new standard is approximately \$18 million. NSW Treasury are the primary users of our financial statements. It is unlikely that the additional benefit from the new standard will exceed the cost of implementation. We have also highlighted other areas for consideration under Q11 (Other modifications).

### **Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211] (Questions 7-9)**

Unambiguous guidance on the scope of AASB 17 is critical in ensuring uniform application of this standard. The proposed indicators do not provide a clear distinction between an insurance contract and a social benefit scheme.

icare acknowledges the challenges of attempting to achieve uniformity in applying this standard across multiple jurisdictions. However, it is also important to acknowledge the construct of the various schemes and legislative frameworks they operate under when accounting for what on face value appears to be schemes that provide similar benefits and cover similar risks.

- As an example, CTP Insurance is provided by private insurers in NSW. However, there are some risks that the private insurers are not willing to cover and benefits they do not want to provide as they are not regarded as insurable by the private sector. icare care schemes act as an insurer of last resort in providing these social benefits to the people of NSW. Those receiving the social benefits are referred to as participants (and not claims). The benefits are funded by a levy on motorists with no contract boundary. In contrast there are no private insurers in Victoria. The TAC issues insurance contracts that cover all risks as they are not the insurer of last resort. Hence it is appropriate for Victoria to account for the TAC as insurance and NSW to account for CTP Care and Lifetime Care as provisions.
- NSW self-insures its assets via the Treasury Managed Fund (TMF). The TMF is guaranteed by the NSW government and is not an insurance scheme. It is an administrative mechanism used to pay compensation on behalf of the NSW Government. The compensation payments are funded by the annual contributions from the agencies covered by the TMF. The agency contributions are largely funded by NSW Treasury. The short-fall/excess at the end of the year is funded by/returned to NSW Treasury. The TMF does not prepare separate financial statements but is consolidated within the Insurance for NSW accounts and the Total State Sector Accounts for NSW. It would not be appropriate to account for the TMF under AASB 17.

icare have proposed a list of indicators to be used in identifying those schemes that should be in scope of the new standard in response to question 8.

### **7. Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211]**

The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:

- (a) similarity of risks covered, and benefits provided.
- (b) identifiable coverage;
- (c) enforceable nature of arrangement;
- (d) source and extent of funding;
- (e) management practices and assessing financial performance; and
- (f) assets held to pay benefits.

Do you agree with these proposed indicators?

If you disagree with the proposed indicators, which of them would you exclude?

Indicator		icare feedback
<b>Similarity of risks covered, and benefits provided</b>	<b>Disagree</b>	<p>icare disagrees with the proposal to use similar risks and benefits as an indicator that an insurance contract exists.</p> <p>Other private insurers cover similar risks and benefits in other jurisdictions not bound by the legislative framework of the NSW social benefit schemes is not indicative of whether there is an insurance arrangement in place.</p> <p>The requirement to identify arrangements outside of the Australian/New Zealand jurisdiction is not practical or feasible. In addition, there are fundamental differences between the legislation applicable in NSW vs other jurisdictions as highlighted in the comparison to Victoria above</p>
<b>Identifiable coverage</b>	<b>Agree</b>	<p>icare agrees that an identifiable coverage period is an indicator for an insurance contract.</p> <p>As noted in BC136/137 social benefit schemes are typically open ended and practical implementation of the standards would not allow for the determination of fulfilment cashflows.</p> <p>icare agrees that the annual levy for funding purposes is typically for practicality and not for the purposes of coverage (BC138).</p>
<b>Enforceable nature of arrangement;</b>	<b>Agree</b>	<p>The enforceable nature of the arrangement should be a prerequisite for identifying if the arrangement is an insurance contract or a social benefits arrangement.</p> <p>Arrangement that can be retrospectively changed (BC142) should not be accounted for under this standard. The standard requires the inclusion of a risk margin to account for volatility in claims. There is no need for a risk margin where claims volatility can be managed by changing benefits payable.</p> <p>Therefore, the arrangement would not be considered as insurance if the controlling government has the power to unilaterally</p>

		<p>change the benefits (BC143/144). The reporting date is not relevant as a mitigant to this argument as noted in BC143 as legislative change can occur in less than 12 months if required.</p> <p>As an FYI, BC144 (b) and (c) should result in the same outcome for the analysis of whether an arrangement is insurance like or a social benefit scheme.</p>
<b>Source and extent of funding;</b>	<b>Agree</b>	<p>The source of funding is an identifier as to whether an insurance contract exists.</p> <p>A good indicator on the applicability of this standard is where the policy holder who stands to benefit from the coverage pays for insurance as noted in BC167.</p> <p>We disagree with BC169 if it refers to arrangement such as the NSW Governments Self Insurance entity.</p> <p>The funding from consolidated revenue is to pay for the claims of the previous year that exceeded our initial estimate of claims payments at the start of that year. If the initial estimate was higher, the funds are returned to consolidated revenue as this is an administrative mechanism to manage govt claims as opposed to an insurance arrangement</p>
<b>Management practices and assessing financial performance;</b>	<b>Disagree</b>	<p>A scheme does not have to be insurance related to have appropriate management practices and assessment of financial performance. B16.22(c) states that fair and prudent claims management. Whether the arrangements are under an insurance contract or a compensation benefit, the fund should apply fair and prudent claims management.</p>
<b>Assets held to pay benefits.</b>	<b>Disagree</b>	<p>In B16.24 a fund that is restricted in the use of funds to pay benefits would be an indicator of an insurance arrangement. This is a standard arrangement for establishment of any public sector scheme. This does not indicate the arrangements must be accounted for under this standard. Further the alternative in B16.24 that "public sector entity receives its funding from sources such as appropriations" is already considered an indicator under B16.19 and is not an alternative for asset held.</p>

**8. Whether or not you agree or disagree with some or all the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.**

<b>Indicator</b>	<b>Rationale for inclusion</b>
Guarantee provided by government	The key principles in AASB 17 are that an entity identifies as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

	<p>The standard requires providing for a risk margin to account for the volatility and uncertainty of claims payments.</p> <p>A government guarantee removes this uncertainty. Hence there is no significant insurance risk.</p>
The ability to change benefits	The ability to retrospectively change benefits for a beneficiary of the scheme is more akin to a social benefit rather than an insurance contract.

**9. The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made.**

The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

- (a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?
- (b) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?

icare agrees that the indicators should be ranked and that there should be prerequisites as gateway requirements for the insurers to be in scope. The proposed indicators ranked in order of relevance:

Ranking	Indicator	Rationale
Prerequisite	Guarantee provided by government	<p>There is no transfer of risk where the scheme is backed by a government guarantee.</p> <p>An entity should consider all other indicators only when not covered by an explicit government guarantee</p> <p>A guarantee negates the need for a risk margin as required by the standard.</p>
Prerequisite	Enforceable nature of arrangement.	<p>A contractual arrangement between the public sector agency and the beneficiary or policy holder exists where rights and obligations are enforceable.</p> <p>Where the rights and obligations are not enforceable on the public sector agency then this is more akin to a social benefit arrangement.</p>

Prerequisite	An identifiable coverage periods.	Those schemes with defined eligibility entry criteria rather than a defined coverage period are social benefit schemes. BC57 (a) states that most public sector arrangements have coverage periods of one year. However, some social benefit schemes issue annual levy notices for administrative purposes only. This is not a proxy for the coverage period.
Relevant -Indicator	Insurer of last resort	Benefits provided by a government entity that the private sector are unwilling to cover in the same jurisdiction should not be considered as insurance.
Relevant -Indicator	The ability to retrospectively change benefits	The ability to unilaterally change benefits negates the need for a risk margin required by the standard.  The risk margin is aimed at ensuring that the value of the insurance liabilities is established at an appropriate and sufficient level. The ability to retrospectively change benefits provides public sector entities with an additional lever to manage the value of liabilities.
Relevant -Indicator	Funding source	The source of funding of an arrangement is a relevant indicator of an insurance like arrangement. Arrangements funded by the beneficiary of the arrangement is more likely to be insurance.  The arrangements are unlikely to be of an insurance where funding is through government appropriations (both direct and look through)

**Sub-grouping of contracts [paragraphs Aus16.1 and Aus22.1 and paragraphs BC19 to BC45] (Questions 1 & 2)**

- 1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.**

Social benefit schemes such as the Lifetime Care scheme in NSW do not issue contracts and hence sub-grouping is not relevant.

icare supports the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context for those schemes that issue insurance contracts with a specific contract boundary.

Public sector insurance policies are typically priced at breakeven after considering investment earnings. (icare notes that 26(a) incorrectly suggests that this occurs prior to investment earnings). Therefore, public sector insurance contracts are onerous since inception.

**2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.**

icare supports the exemption from AASB 17.22. The focus of public sector insurance is on claims management as opposed to premium collections. An exemption allows us to report on these schemes similar to how they are currently managed.

**Initial recognition when contracts are onerous [paragraph Aus25.1 and paragraphs BC46 to BC50] (Question 3)**

**3. Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.**

icare supports the view that there should be an exemption from AASB17.25(c). Not having this exemption can result in future year losses being recognised in the current period.

**Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA) [paragraphs Aus34.1 to Aus34.3 and AusB64.1 and paragraphs BC51 to BC85] (Questions 4 & 5)**

**4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context?**

The guidance provided on coverage periods does not address the concerns noted below.

The guidance on scope needs to be clearer before we address coverage periods. Without a clearer definition of scope there is potential for public sector schemes having perpetual coverage periods as noted in BC67 being incorrectly accounted for under this standard.

BC57 states that most public sector insurers would meet the requirements of stated coverage periods one year or less. For insurance like schemes the sourcing of funds by way of invoicing levies on an annual basis is an administrative function (BC170) and is not a coverage period. As per BC59 the coverage period will be different to the arrangements for funding of levies.

The calculation of the liability for remaining coverage is likely to be materially different between the PAA and GMM models for long tail schemes that do not issue insurance contracts with explicit contract boundaries. These schemes will not meet the eligibility requirements to adopt PAA under AASB17.

These schemes impacted include: -

- The Lifetime Care and Support Scheme
- The Motor Accidents Insurance Treatment and Benefits Funds
- Workers Compensation Dust Diseases Authority

Additional run off schemes may also be impacted by this requirement.

In addition, the guidance to date notes that the ability to reprice a contract will be based on: -

- The practical ability to fully reprice for risks/benefits under the existing or substantially enacted legislation BC71.
- The public sector pricing model is to have a medium to long-term view of the sustainability of the schemes and to minimise short term volatility in relation to pricing. BC81. This pricing model should not eliminate the eligibility of the scheme for PAA.

The proposal does not address the requirement to calculate the liability for remaining coverage under the general model for schemes that have coverage periods of greater than 12 months. eg:

- Construction Risk Insurance Fund
- Home Builders Warranty Insurance
- Reinsurance arrangements under those schemes.

Specific exemptions for these schemes are required to reduce the complexity of the implementation, and the considerable costs that would be associated with this as noted in BC53.

icare supports public sector insurers applying the Premium Allocation Approach without reference to the General Model. This will satisfy the needs of the users of the accounts without the costs and complexity of implementing a general model.

**5. Do you agree with the proposals to:**

**(a) require disclosure of information about the nature of the pricing process, including:**

- (i) the manner in which pricing/benefits are determined.**
- (ii) the timeframes for which they are typically determined; and**
- (iii) (any other relevant constraints under which an entity operates; when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and**

**(b) permit the disclosure to be located either:**

- (i) in the notes to the financial statements; or**
- (ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time? Please provide your reasons.**

icare does not support the requirement to add commercially sensitive disclosures to the accounts of public sector insurers.

**Risk adjustment [paragraphs BC86 to BC122] (Question 6)**

**6. The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.**

**In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.**

**The proposed paragraph 37.1 in the NZASB's Exposure Draft states: 37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk**

is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).

(a) Do you support:

- (i) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or
- (ii) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims? Please provide your reasons.

(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

icare supports not modifying AASB 17 re: PoA. This requirement would make it more onerous than the requirements of the private sector. In addition, icare's risk management is based on industry best practice and aligned to APRA Guidelines where practicable.

#### **Application date [paragraph AusC1.1 and paragraphs BC212 to BC215] (Question 10)**

**10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted?**

**If not, what alternative application date would you suggest? Please provide your reasons.**

An extension of time of at least one year is required if the scope of the public sector standard extends to those schemes that are not insurance although appearing to cover similar risks and benefits on the face of it. We anticipate the challenges and unintended consequences of attempting to force alignment between schemes that operate under varying legislative and governance framework to be significant.

Since for-profit public sector entities are currently required to apply AASB 17 for annual periods beginning on or after 1 January 2023, the AASB issued that consultation document to propose amendments to relevant Australian pronouncements so that for-profit public sector entities would be permitted to continue applying AASB 4 and AASB 1023 until a Standard making public sector-specific modifications to AASB 17 becomes effective.

#### **Other modifications**

**11. Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements?**

**If so, what modifications would you suggest and on what basis would you justify them? Please provide your reasons.**

**Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:**

- (a) specifically exempting 'captive' public sector insurers from applying AASB 17 in their separate general-purpose financial statements [paragraphs BC215 to BC223].
- (b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC224 to BC246].
- (c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and
- (d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].

#### **Adverse Claims Development Cover**

If considered in-scope then consideration/guidance is required for those long tail schemes that are funded by levies where there can be a significant gap between the date of the incident vs. date of claim. This is referred to as adverse claims development coverage.

Guidance on the eligibility of these schemes for the Premium Allocation Approach is beneficial to the public sector.

### **Hindsight Adjustments**

Additional guidance on the treatment of premium adjustments for policies that are estimates at the inception of the policies is should not be treated as a direct participation feature under paragraph 45 of the standard and would not be accounted for under the Variable Fee Approach.

Eg: Workers Compensation premiums may be adjusted based on the performance of the policy holder in relation to claims experience and/or scheme performance. This is not an investment component. Guidance to this effect will be helpful.

icare does not believe that the use of this lever should result in the accounting for these adjustments under the Variable Fee Approach.

### **Captive Insurers**

Public sector governments create agencies to perform claims management on behalf of the state typically only providing services to other government sector agencies. These arrangements would be considered a captive insurer arrangement.

Requiring captive insurers to apply AASB17 without considering its enabling legislation would require a risk margin applied to the accounts of the agency, increasing the need for funding.

The users of the accounts of the captive insurer are the controlling government, and the application of the standard would provide no addition information to the users of the accounts, however, would require additional funding due to the application of the risk margin.

The AASB should revisit the requirement of Captive Insurers to account under AASB17.



Treasury

Contact: Sean Osborn  
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Dr Keith Kendall  
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PO Box 204  
Collins Street West  
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Dear Dr Kendall

*Keith*

### **ED 319 Insurance Contracts in the Public Sector**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ED 319 *Insurance Contracts in the Public Sector* (ED 319). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC acknowledges the proposed indicators are factors relevant in assessing whether an insurance contract exists in the public sector context. However, HoTARAC is of the view that the proposals in ED319 will result in an unnecessarily large number of public sector arrangements subject to the “collective assessment” process, and inconsistency in the conclusions from a “balanced judgment”. Therefore, HoTARAC recommends the AASB:

1. clarify the prerequisite/fundamental elements of an insurance contract (i.e. what an insurance contract must have), e.g. enforceability, at least some premiums/levies from those who stand to benefit from the coverage,
2. clarify the relative significance of indicators in the collective assessment, e.g. by classifying them into primary and secondary indicators,
3. clarify the features of “social benefits” and “compensation schemes” or other schemes or sub-groups of those schemes, that are intended to be scoped out of AASB 17, or make it a rebuttable assumption that certain schemes are, or are not insurance contracts,
4. clarify the basis for the “balanced judgment”, such as the essence/focus for an insurance contract,
5. provide illustrative examples of applying the proposed indicators in a collective assessment and making a balanced judgment thereon,
6. provide further exemption from the general measurement approach,
7. clarify whether a zero risk adjustment is permitted or possible in relevant circumstances,
8. reduce disclosure requirements in the proposed para Aus34.3,
9. provide optional exemption to captive insurers in GGS that provides insurance services solely, or mainly, to GGS entities

Based on consultation with government agencies, of particular concern to HoTARAC, is the scoping indicators as drafted, will lead to:

- Arrangements being in the scope of AASB 17, where this was not intended, including arrangements that are predominantly social benefits schemes in nature;
- The need to assess multiple non-insurance like schemes, just to determine they are not in the scope of AASB 17; and
- Inconsistent application of the indicators to similar arrangements.

The attachment to this letter sets out HoTARAC's response to the specific and general matters for comment, and the reasons for the above recommendations.

If you have any queries regarding HoTARAC's comments, please contact Sean Osborn from NSW Treasury by email to [sean.osborn@treasury.nsw.gov.au](mailto:sean.osborn@treasury.nsw.gov.au).

Yours sincerely



Stewart Walters

CHAIR

Heads of Treasuries Accounting and Reporting Advisory Committee

8 June 2022

**ENCLOSED:**

HoTARAC Comments to the AASB on ED 319 *Insurance Contracts in the Public Sector*

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## **HoTARAC Comments to the AASB on ED 319 Insurance Contracts in the Public Sector**

### **AASB Specific Matters for Comment**

#### ***Sub-grouping of contracts [paragraphs Aus16.1 and Aus22.1 and paragraphs BC19 to BC45]***

**Question 1:** *Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.*

HoTARAC members support the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context, due to the reasons in para BC29, BC30 and BC34.

**Question 2:** *Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.*

HoTARAC members support the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context, due to the reasons in para BC45.

#### ***Initial recognition when contracts are onerous [paragraph Aus25.1 and paragraphs BC46 to BC50]***

**Question 3:** *Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.*

HoTARAC members support the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous, due to the reasons in para BC50.

#### ***Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA) [paragraphs Aus34.1 to Aus34.3 and AusB64.1 and paragraphs BC51 to BC85]***

**Question 4:** *Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:*

*(a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;*

*(b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;*

*(c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;*

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*(d) arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:*

*(i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or*

*(ii) a broad government policy framework that includes considering general economic circumstances and community needs*

*Please provide your reasons.*

HoTARAC members support the above reliefs from the proposed paras Aus34.1-34.2. However, HoTARAC also notes that there are certain public sector insurance schemes not covered by the proposed relief and that would therefore have to adopt the general measurement model.

AASB17.53 provides for two criteria for an insurance contract to be exempted from the general measurement model. Some public sector insurance contracts have coverage period of more than a year, after taking the proposed para Aus34.1-34.2 into consideration, and therefore would fail the exemption criteria in AASB17.53(b). As acknowledged by para BC55, to demonstrate an insurance contract meets the other exemption criteria in AASB17.53(a), it would involve creating a system to periodically test for material differences that, of itself, could involve significant costs.

Therefore, HoTARAC members recommend a blanket exemption for public sector not-for-profit entities, because the cost of maintaining such a system will outweigh the potential value of the information generated and subsequently reflected in the financial statements.

**Question 5:** *Do you agree with the proposals to:*

*(a) require disclosure of information about the nature of the pricing process, including:*

*(i) the manner in which pricing/benefits are determined;*

*(ii) the timeframes for which they are typically determined; and*

*(iii) any other relevant constraints under which an entity operates;*

*when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and*

*(b) permit the disclosure to be located either:*

*(i) in the notes to the financial statements; or*

*(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?*

*Please provide your reasons.*

HoTARAC members believe the proposed disclosure would be of little value to users of financial statements. Policy restrictions on the pricing process demonstrate that most public sector insurance arrangements do not seek financial profits in their pricing process. Therefore, additional disclosure on the pricing process, is not justified if there is significant extra cost associated with it.

HoTARAC recommends any additional disclosure to be restricted to a statement of the fact that the pricing process is affected by relevant government policies and any other constraints, and a reference to any existing authoritative source that is available to the users of financial statements.

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### **Risk adjustment [paragraphs BC86 to BC122]**

**Question 6:** *The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.*

*In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.*

*The proposed paragraph 37.1 in the NZASB's Exposure Draft states:*

*37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).*

*(a) do you support:*

*(i) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or*

*(ii) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?*

*Please provide your reasons.*

*(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.*

HoTARAC members support the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement.

However, HoTARAC seeks clarification from the AASB on the possible contradiction between para BC114(b) that states public sector entities might determine a zero risk adjustment, and para BC109, 111 and 112 which state that requiring a zero risk adjustment would be inappropriate.

### **Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211]**

**Question 7:** *The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:*

*(a) similarity of risks covered and benefits provided;*

*(b) identifiable coverage;*

*(c) enforceable nature of arrangement;*

*(d) source and extent of funding;*

*(e) management practices and assessing financial performance; and*

*(f) assets held to pay benefits.*

*Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?*

HoTARAC members agree that all of the above factors are relevant when assessing whether an insurance contract exists in the public sector context. However, HoTARAC is of the view that:

- some of the proposed indicators should instead be taken as the prerequisite/defining characteristics. It is important to clarify the fundamental
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elements of an insurance contract (i.e. what an insurance contract must have).

- Some indicators are more relevant than others, and this should be clarified in the proposed amendments to the standard, rather than left to preparers' judgment. Indicating the relevant significance in the assessment, e.g. by classifying them into primary or secondary, will be helpful for implementation.
- If no relative significance can be assigned, the proposed indicators (i.e. no relative significance indicated) would be better included as guidance that does not form part of the standard, rather than in Appendix A that does.
- There is insufficient clarity around social benefits and compensation schemes. Several Aus and BC paras imply that such schemes are distinct from insurance contracts (e.g. AusB16.2, BC136, BC166, BC176, BC178(c)). However, in para BC199 the Board was opposed to excluding them from the scope of AASB 17.
- There is insufficient guidance on how to make a balanced assessment using the indicators. Adding some illustrative examples of applying the proposed indicators for a collective assessment would be useful in clarifying the basis of the balanced judgment required.

HoTARAC believes that the existing proposed approach of a collective assessment using the six indicators, as currently expressed, would create a significant burden for many public sector entities that do not have insurance contracts. Our consultations indicate this would lead to inconsistent outcomes due to an insufficient basis to form a judgment that could be expected to be formed by the majority of the preparers:

- a large number of social benefits schemes and compensation schemes will need to go through the collective assessment, only because they have some or all of the elements in the "definition of an insurance contract" in Appendix A of AASB17. Such schemes are not clearly scoped out of the standard (although several BC paras indicate they are not intended to be included). For example, schemes that are open ended, not subject to premiums/levies, or not enforceable.
- several BC paras suggest that certain indicators are definitive, while other indicators could also be features of non-insurance contracts. Clarifying the relative importance of each indicator in the main text of the standard will be critical to making a balanced judgment, as required by para AusB16.2. Without indicating the relevant significance to each indicator, we expect very different assessment outcomes from applying the six indicators.

HoTARAC's view on each individual proposed indicator is elaborated as follows:

#### Similarity of risks covered and benefits provided

HoTARAC agrees that this is relevant when assessing the existence of a public sector insurance contract. However, applying this indicator in an assessment may only be useful under limited circumstances. This is implied in para AusB16.5.

Public sector schemes often target areas where private sector do not see sufficient financial returns relative to the risks, and therefore do not participate in. In addition to circumstances where public sector entities are monopolies, there are examples where the private sector only provides specific insurance services to cohorts with low risks, while the government decides to provide the same insurance services to cohorts with high risks. Therefore, the practical applicability of this indicator is low.

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Therefore, HoTARAC recommends that the amendments should clarify this is not a primary indicator for the assessment. HoTARAC also recommends removing “have similar characteristics” in para BC127 because it is a very broad term and could cause confusion, or clarify what it means in the context of the proposed indicator.

#### Identifiable coverage period

HoTARAC is of the view that this factor should be clarified as a primary indicator, or a prerequisite for a public sector insurance contract.

HoTARAC notes that para AusB16.12 scopes out open-ended arrangements to provide benefits based on eligibility criteria. This is slightly different from para BC136 which specifies that eligibility criteria “relate to someone’s inherent status”. HoTARAC recommends the AASB clarify the apparent inconsistency, i.e. whether AusB16.12 intends open-ended arrangements for benefits based on eligibility criteria that do not relate to someone’s inherent status, being excluded from AASB 17, for example, accidents or natural disasters.

#### Enforceable nature of arrangement

HoTARAC is of the view that this factor should be a prerequisite, rather than an indicator, for a public sector insurance contract.

According to AASB 17.2, a contract is an agreement between two or more parties that creates enforceable rights and obligations. Therefore, HoTARAC believes that enforceability is an inherent feature for a contract. An arrangement should be outside of the scope of AASB 17 if it is not enforceable.

Stating enforceability as a prerequisite would immediately rule out government schemes where public sector entities retain the capacity to change the benefits payable to scheme participants/eligible beneficiaries, and avoid the need to complete a costly collective assessment process.

HoTARAC believes all the BC paras under the heading of “Enforceable nature of arrangement” will still be valid in their current form, as guidance for public sector entities to make a judgment on the enforceability of an arrangement.

#### Source and extent of funding

HoTARAC is of the view that this factor should be a primary indicator, or a prerequisite for a public sector insurance contract.

HoTARAC notes that para BC166 indicates this indicator would immediately rule out a range of social benefits such as aged pensions, universal healthcare activities and disability support. This implies that this indicator is a prerequisite. The rationale of Medicare falling out of the scope as not being a beneficiary pays model indicates the same.

HoTARAC believes having at least some premiums/levies from the party that stands to benefit from the coverage, should be a prerequisite, if maximum consistency with the GFS manual is to be achieved (please refer to the response to Question 12 below). HoTARAC agrees that the extent (above zero) of funding, from premiums or levies should be a primary indicator in assessing whether an arrangement is insurance in nature, as a “beneficiary-pays” model.

#### Management practices and assessing financial performance

HoTARAC is of the view that this factor should be clarified as a secondary indicator, because it is also a feature of arrangements other than insurance contracts, as stated in para BC178(c).

HoTARAC also notes that the last sentence in para BC178(c) implies that “compensation arrangements” should not be in the scope of insurance contracts. HoTARAC seeks further clarification from the AASB on this point and the essential

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features of compensation arrangements that mean these are not insurance contracts.

#### Assets held to pay benefits

HoTARAC is of the view that this factor should be a secondary indicator, if not completely removed from the list of indicators.

Assets held for a specific purpose is a common feature for many public sector schemes, including but not limited to insurance arrangements. When a public sector insurance contract does demonstrate this feature, it is often because there are premiums or levies collected specifically for the arrangement, which is demonstrated by the other proposed indicator of “source and extent of funding”. In such instances, including “assets held to pay benefits” seems redundant or misleading, and may lead to an unnecessary compliance burden, due to the cost of assessing many government schemes with assets specifically held that are not insurance in nature.

HoTARAC notes para BC185 states that the absence of assets held to pay benefits “may be indicative of arrangements that should not be accounted for as insurance contracts”. HoTARAC acknowledges this will help scope out some non-insurance arrangements (and could be the main reason for keeping it as an indicator). However, the same outcome could be achieved if the public sector amendments clarify the importance of certain indicators over others.

**Question 8:** *Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.*

Please refer to our response to Question 7 above.

**Question 9:** *The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:*

*(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?*

*(b) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?*

Please refer to the response to Question 7 above.

If the balanced approach is retained, it should be made more explicit that:

- Indicators do not necessarily have equal weighting when assessing specific arrangements;
- The presence of one or more indicators, does not necessarily mean an arrangement is insurance in nature.

Without explicit clarification, there is a risk preparers and auditors will apply the indicators in way that leads to inconsistent outcomes.

#### **Application date [paragraph AusC1.1 and paragraphs BC212 to BC215]**

**Question 10:** *Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.*

*Please note that the AASB also issued a Fatal-Flaw Review version of an Amending Standard AASB 2022-X Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments for Public Sector Entities for comment. Since for-*

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*profit public sector entities are currently required to apply AASB 17 for annual periods beginning on or after 1 January 2023, the AASB issued that consultation document to propose amendments to relevant Australian pronouncements so that for-profit public sector entities would be permitted to continue applying AASB 4 and AASB 1023 until a Standard making public sector-specific modifications to AASB 17 is effective or applied.*

HoTARAC notes that

- a large number of public sector arrangements may need to be assessed based on the proposed para AusB16.4-16.25, depending on the volume and complexity of arrangements in each jurisdiction,
- the level of judgment required for a collective assessment may also lead to significant debates among preparers and auditors across jurisdictions,
- a system required for measuring schemes that are not currently accounted for as insurance contracts will take time to be tested and established.

Therefore, HoTARAC proposes delaying the mandatory application date to 1 July 2026 to allow sufficient time for the transition.

### **Other modifications**

**Question 11:** *Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?*

*Please provide your reasons.*

*Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:*

*(a) specifically exempting ‘captive’ public sector insurers from applying AASB 17 in their separate general purpose financial statements [paragraphs BC215 to BC223];*

*(b) discounting and inflating requirements applied in measuring insurance liabilities paragraphs BC224 to BC246];*

*(c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and*

*(d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].*

Apart from the suggestions in relation to indicators included in our response to Question 7 above, HoTARAC recommends:

- Adding illustrative examples of collective assessments using the proposed indicators, with different outcome, to allow for comparison. HoTARAC can provide real life examples to assist with illustrative examples if needed. The proposed para AusB16.4 to AusB16.25 provides guidance on what to consider in an assessment, but only limited guidance on applying a significant level of judgment to reach the appropriate conclusions. Without clarifying the substance of an insurance contract in the public sector amendments, it will be challenging for preparers to apply judgments to arrive at consistent conclusions, which will lead to significant diversity in practice.
  - Clarifying whether “social benefits” and “compensation schemes” should be scoped out, including identifying their essential features. This could include providing examples of social benefit or compensation schemes that should be treated as insurance contracts, if appropriate. HoTARAC notes the conclusion to oppose scoping out certain arrangements in para BC200. However, HoTARAC also notes several BC paras (e.g. AusB16.2, BC136, BC166, BC176, BC178(c)) imply that social benefits and compensation schemes are not intended to be treated as insurance contracts. This appears
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to be an inherent contradiction. Our consultation indicates applying the proposed indicators may lead to social benefits and compensation schemes being in the scope of AASB 17, including the examples scoped out in the BC paras above.

- Including a rebuttable assumption that certain schemes are, or are not, insurance contracts, to reduce unnecessary work in scoping assessments.
- Providing an optional exemption to captive insurers within the general government sector (GGS) that provide insurance services solely (or mainly, e.g. 95%) to other entities in the GGS. The costs of preparing individual entity financial statements in accordance with AASB 17, only to eliminate this treatment on consolidation, would exceed the potential benefit.

### **General matters for comment**

The AASB would also particularly value comments on the following general matters, to the extent they have not already been provided in response to specific matters for comment above.

**Question 12:** *Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?*

The proposals in the exposure draft do not appear to have obvious conflicts with GFS requirements. However, HoTARAC notes the *Australian System of Government Finance Statistics: Concepts, Sources and Methods Australia 2015* states (para 13.86): "...under the insurance policy agreement, the policyholder makes payments (known as premiums) to the insurance corporation". This implies the existence of premiums as an essential feature of an insurance policy agreement, while ED 319 proposes to include "source and extent of funding" as one of the 6 indicators of a public sector insurance contract, on which a collective assessment and balanced judgment is required. This could potentially lead to a convergence difference.

**Question 13:** *Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?*

HoTARAC anticipates there may be significant auditing and assurance challenges, because:

- A large number of arrangements may be subject to the collective assessment process based on the proposed indicators. This would require significant audit judgement and resources. Judgment may also be required about which arrangements should be subject to the assessment process.
- Auditors will need to apply significant judgment on application of the "balanced judgment" made by preparers, due to the lack of clarity on the essence/focus of an insurance contract, in the context of the public sector specified in the standard.
- More auditing resources will be incurred in relation to understanding actuarial reports and testing the underlying information system.

**Question 14:** *Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?*

HoTARAC members acknowledges that the application of AASB 17 will enhance sector neutrality, and consistency between insurance contracts and insurance-like

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contracts in the public sector. However, the users of most public sector entities, in particular not-for-profit entities, may find the information of limited additional value. This is because:

- Most public sector entities do not compete with the private sector insurers, and therefore the comparability of the information is not relevant
- Not-for-profit sector entities have objectives other than making a financial profit. Therefore, not-for-profit entities may not include this risk in their pricing.

**Question 15:** *Whether the proposals are in the best interests of the Australian economy?*

No comment.

**Question 16:** *Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).*

HoTARAC acknowledges that applying AASB 17 will have the benefit of enhancing sector neutrality and consistency. However, HoTARAC expects the implementation of AASB 17 may lead to significant costs for some jurisdictions, dependent on the volume and complexity of government schemes, mainly due to the following reasons:

- The proposed amendments do not definitively scope out social benefits and compensation schemes and therefore a large number of government schemes will need to be assessed;
- Significant judgments are required for the collective assessment of proposed indicators;
- The cost of establishing a system for assessing the exemption criteria in AASB 17.53(a) will be considerable; and
- The cost of establishing a system for measuring new insurance schemes under the general measurement model will be considerable.

As an example, iCare of NSW, anticipates that an implementation cost of \$18m. It is difficult to quantify the costs for other non-insurance government entities, because the indicators in ED319 lack sufficient clarity. Feedback from our consultation suggests a large number of schemes that appear to be non-insurance, including social benefits schemes would need to be assessed.

Public sector schemes are often priced to break even, with future funding adjusted to address claims. Arguably, therefore including a risk adjustment in the liability is less relevant than for the private sector. As drafted, the potential cost of assessing many existing government schemes will likely outweigh the benefit for some jurisdictions. HoTARAC recommends the AASB consider the suggestions included in our responses above, to reduce the implementation costs as far as possible.

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8 June 2022

External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142  
[Via electronic submission](#)

Dear Board

**NZASB Exposure Draft 2022-3: Insurance Contracts in the Public Sector**

The Earthquake Commission welcomes the opportunity to provide comments to the External Reporting Board on ED PBE IFRS 17 Insurance Contracts.

We have attached our responses to the specified matters for comment.

Yours sincerely



Fraser Gardiner  
Chief Financial Officer

UNCLASSIFIED

### Sub-grouping of contracts

<p>1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.</p>	<p>Yes, for the following reasons:</p> <ul style="list-style-type: none"> <li>(a) We have limited details on our exposure and the modelling of the perils we cover is not well developed, so any judgements as to whether contracts are onerous or not is highly subjective.</li> <li>(b) Information on onerous contracts does not seem to align with the imperatives of a community rated scheme.</li> <li>(c) It would be significant work for little return to the readers of the financial statements.</li> </ul>
<p>2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.</p>	<p>Yes, for the following reasons:</p> <ul style="list-style-type: none"> <li>(a) EQC does not currently have reliable exposure data clarifying coverage periods.</li> <li>(b) Levies are repriced infrequently.</li> <li>(c) This would require significant work for little return to the readers of the financial statements.</li> </ul>

### Initial recognition when contracts are onerous

<p>3. Do you agree with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.</p>	<p>Yes, for the following reasons:</p> <ul style="list-style-type: none"><li>(a) EQC does not currently have reliable exposure data clarifying coverage periods, nor can it match levy receipts with clients as they are received in bulk from insurers.</li><li>(b) Modelling of catastrophe risk is not an exact science and there is significant room for variation in views of the cost of cover being provided, making determination of “onerous” somewhat fraught</li><li>(c) Therefore, there does not appear to be any benefit arising for readers of the accounts for the extra work involved.</li></ul>
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**Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA)**

<p>4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the Boards' proposals to provide guidance that:</p> <ul style="list-style-type: none"> <li>(a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;</li> <li>(b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;</li> <li>(c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;</li> <li>(d) arrangements would not be regarded as failing to meet the criterion in PBE IFRS 17.34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account: <ul style="list-style-type: none"> <li>(i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or</li> <li>(ii) a broad government policy framework that includes considering general economic circumstances and community needs.</li> </ul> </li> </ul> <p>Please provide your reasons.</p>	<p>Yes, we agree with the proposed guidance in principle.</p> <p>The Earthquake Commission's legislation provides the ability to reset the levy (reprice the risks) at any time for insurance incepted going forward. In practice, when levies have changed we have given notice periods of year or so as a courtesy to both our customers and to the private insurance companies who collect our levies on our behalf. This could therefore result in debate with the auditor over EQC's practical ability. We propose additional wording to be included within the guidance about the theoretical ability to fully reprice.</p>
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<p>5. Do you agree with the proposals to:</p> <p>(a) require disclosure of information about the nature of the pricing process, including:</p> <ul style="list-style-type: none"> <li>(i) the manner in which pricing/benefits are determined;</li> <li>(ii) the timeframes for which they are typically determined; and</li> <li>(iii) any other relevant constraints under which an entity operates;</li> </ul> <p>when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and</p> <p>(b) permit the disclosure to be located either:</p> <ul style="list-style-type: none"> <li>(i) in the notes to the financial statements; or</li> <li>(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?</li> </ul> <p>Please provide your reasons.</p>	<p>Our preferred approach fits within these parameters.</p> <p>The methodology to determine levies will be set out in regulations associated with the new Act, and that should be the authoritative source. The calculations underpinning the levy may use different assumptions than those used by the valuation actuaries in determining the outstanding claims liability. We note also that the government will have the prerogative to deliberately set the levy below the cost of provision of services to assist the accessibility of insurance for New Zealanders, if it so desires.</p> <p>For simplicity and ease of readability, we believe it would be best to simply refer the reader to the Act and any related public reports on the setting of the levy rather than include these details alongside the valuation assumptions.</p>
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## Risk adjustment

6. The NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

*37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).*

In contrast, the AASB is proposing no modification to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

<p>(a) Do you support:</p> <ul style="list-style-type: none"> <li>(i) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims; or</li> <li>(ii) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement?</li> </ul> <p>(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.</p>	<p>Historically we have reserved at a 75% probability of sufficiency, and more recently at 85%, at the decision of the Board to take a more conservative approach. Overall, the application of the rebuttable 75% confidence level is more clear cut in application than the alternatives, as the determination of a risk adjustment could be contentious in the public sector.</p> <p>We note Treasury advice that the determination of the EQC levy must follow guidance in respect of compulsory levies; in particular that it must only reflect the cost of services provided, so no profit margin is allowed.</p> <p>Overall, we are supportive of the NZASB approach with the 75% rebuttable confidence level. If this were to be removed, we would work with our colleagues at The Treasury to determine a suitable risk adjustment.</p>
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**Scope**

<p>7. The Boards propose that the public sector arrangements to which PBE IFRS 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AG16.1 to AG16.25]:</p> <ul style="list-style-type: none"> <li>(a) similarity of risks covered and benefits provided;</li> <li>(b) identifiable coverage;</li> <li>(c) enforceable nature of arrangement;</li> <li>(d) source and extent of funding;</li> <li>(e) management practices and assessing financial performance; and</li> <li>(f) assets held to pay benefits.</li> </ul> <p>Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?</p>	<p>Yes, we agree with the proposed indicators, noting that it is clear that we are captured by the standard.</p>
<p>8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.</p>	<p>No, we agree with the proposed indicators.</p>

<p>9. The proposed paragraph AG16.2 requires that the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:</p> <ul style="list-style-type: none"><li>(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?</li><li>(b) would you identify some indicators as pre-requisites for applying PBE IFRS 17 and, if so, which ones, and why?</li></ul>	<p>Yes, we agree with the indicators being considered collectively rather than using a ranking approach (noting that we are not affected by this decision).</p>
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**Effective date**

<p>10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.</p>	<p>We would prefer a later adoption date for the following reasons:</p> <ul style="list-style-type: none"> <li>(a) Although there are exemptions that could simplify the adoption of this new standard, there will still be a need to update systems and processes to ensure that the standard is embedded within the finance systems rather than being performed outside of the systems in a spreadsheet.</li> <li>(b) NZ IFRS 17 was adopted in August 2017 with an effective date of 1 Jan 2023 to allow the for-profit entities time to update systems and processes. With an effective date proposed of 1 Jan 2025, this does not provide the public sector with the same lead-in time to update the necessary systems.</li> <li>(c) The EQC Act is being repealed, and without clarity on the terms of the replacement, it is difficult for us to complete the preparatory work.</li> </ul>
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**Other modifications**

<p>11. Do you consider there should be any further modifications to PBE IFRS 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?</p> <p>Please note that the Boards considered, but rejected, proposing modifications to PBE IFRS 17 in respect of public sector arrangements on the following topics:</p> <ul style="list-style-type: none"> <li>(a) specifically exempting ‘captive’ public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements [paragraphs BC228 to BC236];</li> <li>(b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC237 to BC259];</li> <li>(c) the measurement of investments backing insurance liabilities [paragraphs BC260 to BC265]; and</li> <li>(d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC266 to BC273].</li> </ul>	<p>We are still analysing the impact on our catastrophe reinsurance contracts (excess of loss), which are not aligned with our financial year, and in some cases are multi-year.</p> <p>We are also considering non-traditional forms of risk transfer, and have not yet considered the impact of these.</p> <p>We would be grateful to continue to engage with you on these complex issues.</p>
<p>12. Do you have any other comments on the ED?</p>	<p>No</p>



08 June 2022

Dr Keith Kendall  
Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins St West Victoria 8007  
AUSTRALIA

Dear Dr Kendall,

**AASB Exposure Draft ED 319 *Insurance Contracts in the Public Sector***

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on AASB Exposure Draft ED 319 *Insurance Contracts in the Public Sector*. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG supports the Australian and New Zealand Accounting Standards Boards' efforts to propose public sector-specific modifications to AASB 17 *Insurance Contracts* to facilitate the application of this standard by public sector entities with insurance and insurance-like arrangements.

While ACAG understands the AASB's rationale for not prescribing the importance (weighting) of the indicators in assessing whether a public sector insurance arrangement is within the scope of AASB 17, guidance on the importance of the indicators would improve the consistency and comparability of financial statements across like public sector entities. This is particularly the case in more judgmental circumstances where it is not definitive if public sector entities fall within the scope of AASB 17 and the public sector entities have differing interpretations of the indicators that are the most significant to this assessment. As an alternative to rating the individual indicators, the Board could specify the relative importance of the indicators by separating them between primary and secondary indicators.

ACAG's submission also includes other suggestions and recommendations that we believe will help promote greater consistency and comparability of application across like public sector insurance arrangements.

The attachment to this letter addresses the AASB's specific matters for comment outlined in the ED. ACAG appreciates the opportunity to comment and trusts you find the attached comments useful.

Yours sincerely

Margaret Crawford  
Chair  
ACAG Financial Reporting and Accounting Committee

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p.p Ian Goodwin, Deputy Auditor-General

**AASB Specific Matters for Comment****Sub-grouping of contracts [paragraphs Aus16.1 and Aus22.1 and paragraphs BC19 to BC45]****SMC 1**

Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context?

Please provide your reasons.

ACAG agrees with the proposal to exempt public sector entities from subgrouping contracts based on whether they are onerous or non-onerous at initial recognition for the reasons outlined in paragraph BC34 of the ED.

As identified in paragraph BC 34(a), ACAG agrees that the information obtained from sub-grouping would not be useful to users of the financial statements, compared to the effort required to gather the information (if even possible) and assess this. Some jurisdictions confirmed that insurers have pricing set for the whole portfolio based on ministerial decisions, or will use consistent pricing decisions and requirements for customers (with very minor exceptions) that would not align well to a sub-grouping approach. There does not tend to be any deliberate 'loss leading' as the public sector insurers often cannot reject policyholders.

**SMC 2**

Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context?

Please provide your reasons.

ACAG agrees with the proposal to exempt public sector entities from subgrouping contracts based on whether they are issued more than one year apart as the assessment of onerous / non onerous contracts by the year in which the contract is entered is not considered overly relevant for the majority of public sector insurance entities for the reasons outlined in paragraph BC45 of the ED.

**Initial recognition when contracts are onerous [paragraph Aus25.1 and paragraphs BC46 to BC50]****SMC 3**

Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous?

Please provide your reasons.

ACAG agrees with the proposal to amend AASB 17 to remove the requirement for public sector entities to recognise insurance contracts when the group becomes onerous if this is earlier than the beginning of the coverage period or the date when the first payment from the policyholder becomes due.

ACAG supports the proposal in paragraph Aus25.1 because without paragraph Aus25.1, the public sector would be required to initially recognise groups of insurance contracts when they become onerous which may:

- be overly burdensome for some public sector entities where their systems are not set up to capture this information
- impact on the usefulness of the financial statements to users if the financial statement results are distorted by recognising some or all of the following year's contracts. Some of the workers compensation and public indemnity insurers have coverage periods aligned to financial years which would result in the recognition of future year onerous contracts late in the current year, which could result in the financial statements not providing as useful information as intended.

Public sector entities have more onerous contracts than the private sector as many public sector insurers do not seek a profit and aim to break even and cover their costs over the long term.

**Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA) [paragraphs Aus34.1 to Aus34.3 and AusB64.1 and paragraphs BC51 to BC85]**

<p><b>SMC 4</b></p> <p>Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:</p> <ul style="list-style-type: none"> <li>(a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;</li> <li>(b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;</li> <li>(c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;</li> <li>(d) arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:             <ul style="list-style-type: none"> <li>(i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or</li> <li>(ii) a broad government policy framework that includes considering general economic circumstances and community needs.</li> </ul> </li> </ul> <p>Please provide your reasons.</p>
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ACAG agrees that the PAA should be the expected approach for many public sector entities and supports the proposed guidance on coverage periods that impact on the eligibility criteria for the PAA. The guidance helps align the public sector's eligibility for the PAA to any comparable private sector counterparts without public sector specificities.

In some cases, insurance entities simply would not have access to the information required for utilising the general measurement model if the coverage period was assessed to be longer than one year (as their funding arrives through an intermediary and hence information on their 'policyholders' is limited).

ACAG agrees with the proposed guidance that:

- (a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits. Often a public sector entity's practical ability to fully price for risks or benefits is beyond the control of the individual entity and may require ministerial approval or be set by an independent regulatory agency. For example, in NSW, the State Insurance Regulatory Authority (SIRA) regulates three statutory insurance schemes in NSW - workers compensation, compulsory third party (CTP), and home building compensation.
- (b) a public sector's monopoly position for providing coverage risks in a particular community and obligation to stand ready to insure participants/policyholders should not of itself impact the public sector entity's practical ability to price for risks or benefits. While public sector insurers may be a monopoly or a near monopoly this does not prevent them from pricing for risks and benefits to ensure that they break even. The guidance also provides clarity and certainty on how the monopoly status affects the entity's practical ability to fully price for risks or benefits thereby reducing inconsistent interpretations.

- (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits. While public sector entities may be required to stand-ready to insure future policyholders there could be turnover in the participants/policyholders over successive years. While public sector entities may not aim to achieve a profit compared to their private sector counterparts, they do aim to break even which requires them to consider the pricing for risks and benefits.
- (d) arrangements would not be regarded as failing to meet the criteria in AASB 17.34(b(ii)) because the premium pricing for coverage up to the date risks are re-assessed takes into account risks that relate to periods after the reassessment date based on having a policy of determining pricing and benefits using a medium to long term view of a broad policy framework that includes considering general economic circumstances and community needs. For example, in NSW in relation to the Home Building Compensation Fund (HBCF), administrative and policy reforms in 2017 have put the HBCF on the road to break-even pricing. Since 2018, icare has progressively moved premiums towards full break-even rates in a staged approach that continues the policy of supporting the construction industry. The most recent premium filing was undertaken in early 2021, with the final tranche of increases towards sustainable rates (relating to multi-unit dwellings) occurring in July 2021. This brings the HBCF within the icare sustainable pricing strategy of premiums within 10 per cent of operational breakeven.

As noted below under SMC 9 there are uncertainties as to the coverage period (the period of insurance contract services) when there is no link between an insurance contract, the policyholder (per AASB 17, the person who has the right to be compensated) and the payment by the party who pays the premium / levy. ACAG believes further guidance is required to determine the coverage period for public sector arrangements that do not issue insurance contracts (i.e. where the arrangement is enforceable through legislation or other means) but may fall within the scope of AASB 17. For example, arrangements such as public sector insurance arrangements for serious and substantial injury. These arrangements are funded from annual levies on Compulsory Third Party (CTP) insurance premiums collected by licensed insurers and there is no direct link between the person who pays the premium and the person who receives the benefits.

In these circumstances it is not clear in the ED whether the coverage period would be one year as the levies are linked to the annual CTP premiums, or the coverage period is the length of time the injured person is entitled to compensation (which can be many years). ACAG believes that additional guidance may help reduce the possible different interpretations and improve the consistency and comparability of financial statements across like public sector entities.

<p><b>SMC 5</b></p> <p>Do you agree with the proposals to:</p> <ul style="list-style-type: none"> <li>(a) require disclosure of information about the nature of the pricing process, including: <ul style="list-style-type: none"> <li>(i) the manner in which pricing/benefits are determined;</li> <li>(ii) the timeframes for which they are typically determined; and</li> <li>(iii) any other relevant constraints under which an entity operates;</li> </ul>                     when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and                 </li> <li>(b) permit the disclosure to be located either: <ul style="list-style-type: none"> <li>(i) in the notes to the financial statements; or</li> <li>(ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?</li> </ul> </li> </ul> <p>Please provide your reasons.</p>
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- (a) ACAG agrees with the proposal to require disclosure of information about the nature of the pricing process when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period.

While ACAG agrees with the disclosure requirements, we believe that limitations should be placed on the disclosure (similar to disclosure exemption in AASB 137 for provisions and contingent liabilities) if this is sensitive information that will affect the public sector entity's ability to compete in the market if they are not a monopoly provider.

- (b) ACAG agrees that public sector entities should be able to disclose the information in the notes to the financial statements or by reference to an authoritative source on the same terms as the financial statements and at the same time. This provides more flexibility for public sector entities and reduces duplication in the financial statements if the information is included in another source.

Given the few practical instances where information required by accounting standards is cross-referenced out of the main financial statements, and the lack of experience of these limited situations in the public sector, ACAG suggests that the AASB highlights the implications. The implications would be similar to those required when executive remuneration disclosures were cross-referenced from the notes to the financial statements to the remuneration report. This required that the information cross-referenced would still be audited (to ensure compliance with the accounting standards), with the scope of the audit expanded to include the cross-referenced information, and the need for similar changes to the directors' declaration / management certificate.

**Risk adjustment [paragraphs BC86 to BC122]**

<b>SMC 6</b>
<p>The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.</p> <p>In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.</p> <p>The proposed paragraph 37.1 in the NZASB's Exposure Draft states:</p> <p style="padding-left: 40px;">37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).</p> <p>(a) Do you support:</p> <ul style="list-style-type: none"> <li>(i) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or</li> <li>(ii) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?</li> </ul> <p>Please provide your reasons.</p> <p>(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.</p>

- (a) ACAG supports the AASB approach of not modifying the AASB 17 requirement regarding the risk adjustment requirement as this is consistent with a principles-based standard. This allows public sector entities to apply the requirements based on their individual facts and circumstances.

However, the ED is not clear on the Board's views on whether a public sector entity can have a zero-risk adjustment and the circumstances when this may be appropriate. This should be clarified in the Basis for Conclusions.

ACAG does not believe the Board's views are clear on whether a zero-risk adjustment is appropriate as contradictory views are expressed in paragraphs BC 93 and BC 114 which may result in differing application by public sector entities and their auditors, even when those entities have similar arrangements.

Paragraph BC93 states that:

*'the AASB Discussion Paper Basis for Conclusions [AASB DP.BC8 to BC13] raised the possibility of a risk adjustment of zero based on a case of a public sector entity with a government guarantee and/or a monopoly position in which it can recoup current and past losses from its controlling government or via future contracts. However, the AASB Discussion Paper concluded that, while the risk adjustment might differ from a for-profit private sector entity, it is unlikely to be nil because:*

*(a) the uncertainties associated with outstanding claims cash flows in respect of past transactions, that would be reflected in a risk adjustment are a characteristic of the claims liability; and*

*(b) in respect of the current (usually annual coverage) transactions, the entity is bearing risk for that period and an entity's monopoly position is not relevant [AASB DP.BC10]'*

Paragraph BC 114 states that:

*'under AASB 17, public sector entities might determine a zero risk adjustment on the basis that they are monopolies and can adjust future prices to make up for higher-than-expected past claims'.*

If a zero risk adjustment is appropriate, the ED should clarify the circumstances when this may be appropriate. For example, two respondents indicated in the feedback on the AASB Discussion Paper 'Australian-specific Insurance Issues – Regulatory Disclosures and Public sector Entities' that a risk adjustment of zero may also be appropriate where a scheme is so long tail that volatility is largely mitigated by the smoothing over time (Agenda Paper 8.1, September 2018 Board meeting). It is not clear whether it is appropriate for the risk adjustment to be zero when the scheme is long tail as this circumstance is not mentioned in paragraph BC 114.

Irrespective of whether the scheme is long tail or not, some ACAG Offices believe that some risk adjustment may be necessary because:

- even where the agencies liability is guaranteed by its parent (the government), own credit risk does not appear to be part of the AASB 17 definition of risk adjustment
- public sector entities are subject to the same or similar variability of cash-flows (i.e. uncertainty to the amounts of outstanding claims) as private sector entities.

ACAG also suggests amending paragraph BC90 which refers to entities benchmarking to 75% confidence level to reflect the current practice of private sector entities. While the majority of the public sector use 75%, ACAG understands the private sector only use 75% as the minimum. This is inconsistent with the Staff papers presented at the AASB Board meetings which refer to the private sector using risk margins of between 80% to 95% confidence level (probability of adequacy) (paragraph 1.3 of Agenda paper 10.3, April 2021) and between 80% and 90% (paragraph 10 of Agenda Paper 5.3, November 2021).

- (b) ACAG does not have a suggested alternative approach for the risk adjustment requirement in AASB 17.

**Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211]****SMC 7**

The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:

- (a) similarity of risks covered and benefits provided;
- (b) identifiable coverage;
- (c) enforceable nature of arrangement;
- (d) source and extent of funding;
- (e) management practices and assessing financial performance; and
- (f) assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?

ACAG agrees with the proposed indicators outlined in paragraphs AusB16.1 to AusB16.25.

**SMC 8**

Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.

ACAG does not have any suggested alternatives or additional indicators to those specified in paragraphs AusB16.1 to AusB16.25.

**SMC 9**

The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:

- (a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?
- (b) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?

**(a) Additional guidance on the indicators**

The guidance should be expanded to explain that there is no link between an insurance contract, the policyholder (per AASB 17 the person who has the right to be compensated) and the payment by the policyholder of a premium – specifically, that the party who pays the levy does not have to be the policyholder. There is still some uncertainty, even with the indicators, and the references in the ED to levies/premiums and premiums/levies, whether these arrangements are intended to be within the scope of AASB 17. Using an illustrative example that applies the indicators to a common public sector arrangement (such as lifetime care benefits) may help promote greater consistency in judgements across like arrangements. This includes arrangements such as the National Injury Insurance Scheme covering (very) serious personal injury, and Nominal Defendant schemes in Queensland and Lifetime Care and Support scheme in NSW. An illustrative example that demonstrates how paragraphs AusB16.13-16 and AusB16.17-19 would be applied in these circumstances would assist in determining whether such arrangements are within the scope of AASB 17.

Because of the current uncertainty, there are different views in interpreting enforceability – particularly where the policyholder has an enforceable right to compensation, but there is no enforceability from the payer of the premium / levy. Consequently, it is unclear how this indicator should be interpreted. There are similar interpretation issues when assessing coverage period because there is no contract or arrangement between the payment of the premium / levy and the risks being covered.

There is also a lack of clarity in relation to whether social benefit schemes should be scoped out of AASB 17. Paragraphs AusB16.2, BC 199 and BC 200 have not specifically excluded social benefit schemes from the scope of AASB 17 and require an assessment of the social benefit arrangement against the proposed indicators to determine whether it is within the scope of AASB 17. There are also a number of paragraphs which identify that social benefit schemes are different from insurance contracts (paragraphs AusB16.2, BC 136, BC146) and that these schemes are not intended to be included (paragraph BC 166).

### **Importance of the indicators**

While ACAG understands the AASB's rationale for not prescribing the importance (weighting) of the indicators in assessing whether a public sector entity is within the scope of AASB 17, the absence of guidance on the importance of the individual indicators could result in differing application by public sector entities and their auditors, even when those entities have similar arrangements.

Because of their specific nature / legislative basis, there may also be differences in opinion between public sector agencies and their auditors on whether their risk acceptance and benefits are the same as, or similar to, private sector insurers, including when the differences are so significant that they are no longer 'similar' insurance offerings.

While more prescriptive guidance over the application may not be endorsed as consistent with a principles based standard or highly desirable by the industry because it allows less flexibility in application, it would improve the consistency and comparability of financial statements across like public sector entities. This is particularly the case in more judgemental circumstances where it is not definitive if public sector entities fall within the scope of AASB 17 and the public sector entities have differing interpretations of the indicators that are the most significant to this assessment.

If the AASB does not rate the individual indicators, some ACAG Offices suggest the Board consider specifying which indicators are of higher importance to the assessment of whether a public sector entity is within the scope of AASB 17 by splitting these into primary and secondary indicators. ACAG believes the following indicators would be primary indicators (for which more weight is applied) in the assessment of whether a public sector entity is within the scope of AASB 17:

- similarity of risks covered and benefits provided
- identifiable coverage period
- enforceable nature of the arrangement (noting our response to (b) below that ACAG believes this should be a pre-requisite)
- source and extent of funding.

ACAG believes the following indicators would be secondary indicators when assessing whether a public sector entity is within the scope of AASB 17:

- management practices and assessing financial performance
- assets held to pay benefits.

ACAG believes these are secondary indicators because they would be present in many other public sector arrangements, such as social benefit and other arrangements.

- (b) While the AASB states that none of the indicators are a pre-requisite to apply AASB 17, ACAG questions whether public sector entity arrangements can be accounted for under AASB 17 if they are not enforceable. Paragraph BC 154 of the ED states:

*'The Boards noted that, under AASB 17/PBE IFRS 17, the description of the rights and obligations that would be accounted for under insurance contracts is broad (and go beyond the contract). AASB 17.2/PBE IFRS 17.2 says (emphasis added):*

2. *An entity shall consider its substantive rights and obligations, whether they arise from a **contract, law or regulation**, when applying IFRS 17. A contract is an agreement between two or more parties that creates enforceable rights and obligations'.*

If the public sector arrangement does not create enforceable rights and obligations then this would not align with paragraph 2 of AASB 17 above, but could still result in the insurance arrangement being assessed as being within the scope of AASB 17 because other indicators may be present in the arrangement. If arrangements that were not enforceable were included in the scope of AASB 17 then this would be contrary to other Australian Accounting Standards such as AASB 15 *Revenue for Contracts with Customers*, AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities*.

ACAG therefore suggests the Board consider whether enforceability of the arrangement (whether by contract, legislation or other means) should be a pre-requisite for applying AASB 17.

#### Application date [paragraph AusC1.1 and paragraphs BC212 to BC215]

##### SMC 10

Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.

ACAG agrees that the proposed mandatory application date for public sector entities of annual reporting periods beginning on or after 1 July 2025 is feasible if the proposals in the ED are reflected in AASB 17 and the information gathering and systems modifications are minimised.

The application date results in the public sector adopting AASB 17 two years after the private sector with a 30 June balance date, which will allow the public sector to apply any learnings from the private sector's implementation.

##### SMC 11

Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?

Please provide your reasons.

Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:

- (a) specifically exempting 'captive' public sector insurers from applying AASB 17 in their separate general purpose financial statements [paragraphs BC215 to BC223];
- (b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC224 to BC246];
- (c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and
- (d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].

ACAG has identified anomalies in the AASB approach that 'captive' public sector entities preparing general purpose financial statements (GPFS) should follow AASB 17, but when those entities do not prepare GPFS they should not have to follow AASB 17. The anomalies arise when the insurance arrangements are administered by an agency on behalf of the state and does not prepare its own GPFS. For example, the Queensland Government Insurance Fund (QGIF) (for some of its activities) currently undertakes insurance activities (policies and premiums) with other government parties. While it does not prepare its own GPFS (essentially as a captive insurer there is no need for external reports), the QGIF activities are captured by Queensland Treasury 'Administered Activities'. The calculation of outstanding claims for QGIF (in accordance with AASB 17 and possibly using a risk adjustment) for disclosure in the Treasury administered financial statements does not seem relevant when the amount in the Whole of Government (WoG) financial statements will be different as the liability will be calculated under AASB 137.

A similar anomaly arises in AASB 1049 for the general government sector (GGS) financial statements where AASB 17 accounting would need to be applied to the QGIF policies for PFC and PNFC entities that are eliminated on consolidation in the WoG financial statements.

ACAG suggests the following other modifications to the ED:

- Clarifying the reasoning as to why the AASB has concluded that domestic building risk coverage arrangements being greater than one year (BC42(a) and BC57(b)(i)). For example, under the Queensland Home Warranty Scheme (run by the Queensland Building and Construction Commission (QBCC)) notices of cover are issued for individual work projects and premiums are linked to the value of the individual work projects. Coverage is for if a contractor fails to complete a contract for residential work or fails to rectify defective work arising from the individual work project. There are certain limitations and restrictions, for example limitations to the notification of defects – non-structural defects of six months and structural defects of six years and six months.
- There are some Basis for Conclusion paragraphs that include commentary enclosed in [] brackets. Is this intended? For example, BC65, BC146, BC156.
- ACAG suggests the Board check whether the Medicare levy goes to Medicare activities. ACAG's understanding is that most of the Medicare levy goes into consolidated revenue, as most of the revenue raised by the Medicare levy is not hypothecated and goes into consolidated revenue. A proportion is being directed to the newly established Disability Care Australia Fund which helps fund the NDIS. An overview of Medicare is available from the Parliament of Australia [website](#).
- The drafting of paragraph BC232 appears contradictory. The liability for incurred claims may be increased by a risk margin for uncertainty (e.g. for 75% or more probability), but then the liability is reduced (through a higher illiquidity premium) if the length of time over which claims (cash flows) are expected to be paid is longer and the cash flows more uncertain. It appears contradictory to have a higher risk margin for uncertainty, yet a higher illiquidity premium the more unpredictable the cash flows.
- In paragraph BC186, ACAG suggests changing 'effecting' to 'affecting'.

## AASB General Matters for Comment

### GMC 12

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?

### GFS issues with the proposals in ED 319

ACAG has identified a potential GFS issue created by the public sector modifications to AASB 17 in relation to the definition and scope of insurance contracts.

The International Monetary Fund Government Financial Statistics Manual 2014 (IMF GFSM) and the Australian Government Financial Statistics Manual (AGFSM) defines insurance policy as ‘an agreement between an insurer and another institutional unit, the policyholder. Under the agreement, the policyholder makes a payment (premium) to the insurance corporation, which makes a payment (claim) to the policyholder if or when a specified event occurs. The policyholder protects itself against certain forms of risk’ (paragraph A4.66 of the IMF GFSM and paragraph 13.86 of AGFSM). The GFS definition of insurance implies that the policyholder makes a payment or premium to the insurer. This is different from ED 319, where the ‘source and extent of funding’ is only one of 6 indicators that an arrangement may be within the scope of AASB 17. Paragraph AusB16.2 requires the indicators outlined in paragraphs AusB16.4 to AusB16.25 to be considered collectively so that a balanced judgement can be made. Consequently, there is a risk that some public sector arrangements may be accounted for as an insurance contract within the scope of AASB 17, but not captured as an insurance policy under GFS.

**GFS issues with the proposals in AASB 17**

ACAG also notes the following possible convergence difference between AASB 17 and GFS.

If a general government sector (GGS) unit operates an insurance scheme and maintains separate reserves, the IMF GFSM and the AGFSM requires the GGS unit to record transactions related to the non-life insurers in the same way as other insurers (paragraph A4.79 of the IMF GFSM).

There is a convergence difference between the recognition of investment revenue under AASB 17 and under the IMF GFSM and AGFSM. AASB 17 requires investment returns to be recognised, measured and presented separately. The IMF GFSM and AGFSM deems the income generated by the investment of reserves as an implicit premium supplement attributed to policyholders. Therefore, the public sector insurer is required to attribute the investment returns by recording an expense (Property, expense for investment income disbursements) and an increase in liabilities in non-life insurance technical reserves (consists of prepayments of net non-life insurance premiums and reserves to meet outstanding non-life insurance claims (paragraph A1A.327 of AGFSM)). When the liability is extinguished, the insurer records the premium supplement. This supplement reduces the cash payment that would otherwise be required from the policyholder and is recorded as revenue (classified as premiums, fees and current claims related to non-life insurance and standardised guarantee schemes) and a decrease in financial liabilities for non-life insurance technical reserves (A4.79 of IMFGFSM and Box 13.1(i) of AGFSM).

The extent of the convergence difference will depend on whether a GGS unit or the public financial corporations sector operates insurance schemes including whether they are eliminated at the whole of government level.

These changes are likely to change the accounting for provisions / outstanding claims by some public sector entities. It is not clear whether these changes can be dealt with as changes to liability estimates or will create a GFS difference.

<b>GMC 13</b>
Whether the proposals would create any auditing or assurance challenges and, if so, an explanation of those challenges?

ACAG believes that the proposals and AASB 17 will create auditing and assurance challenges. ACAG believes the key auditing and assurance challenges are likely to arise in the following areas:

**1. Determining whether a public sector entity is within the scope of AASB 17**

Refer to ACAG’s comments at SMC 9.

**2. Applying AASB 17, modified as proposed, to insurance-like arrangements in the public sector that have accounted for their liabilities under AASB 137**

While ACAG agrees that insurance-like arrangements that meet the recognition criteria in paragraphs AusB16.1 to AusB16.25 should be accounted for under AASB 17, the standard in its current form has not been tested for such schemes that don't issue insurance contracts. In particular, how contract boundary and coverage period are intended to be applied and tested where there is no contract. Refer to ACAG's comments at SMC 4. This creates additional complexity in auditing these entities.

**3. Determining the adjustment for non-financial risk**

As stated in IFRS 17.BC210(a), currently there is no single well-defined measurement approach to risk adjustments that provide consistency and comparability of results. This fact compared with the significant judgement used by the entity to determine the risk adjustment and the fact that not-for-profit entities generally don't seek compensation from bearing risk, the possibility of government backing of claims liabilities and the long-term nature of the claims adds to the complexity in auditing the appropriateness of the risk adjustment factor for non-financial risk. Added to the complexity, is whether it is appropriate for public sector entities to have a zero risk adjustment. As stated above in SMC 6, the ED is not clear on the Board's views on whether a public sector entity can have a zero-risk adjustment and the circumstances when this may be appropriate. This should be clarified in the Basis for Conclusions.

**GMC 14**

Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?

ACAG believe that the application of AASB 17 modified as proposed would result in financial statements that are useful for users as they will help promote consistency in the accounting for insurance-like arrangements by public sector entities, particularly in relation to the calculation of liabilities. In most cases, it is the liability calculation, not the income stream, that drives government decision-making and is the focus of users of the financial statements. For example, some insurance-like arrangements currently apply AASB 1023 *General Insurance Contracts*, while others are applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

**GMC 15**

Whether the proposals are in the best interests of the Australian economy?

ACAG has no specific comments.

**GMC 16**

Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).

ACAG has no specific comments.

## ACC's Response to Questions in Invitation to Comment on NZASB ED 2022-3

1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.

ACC agrees with this proposal.

ACC's levies and appropriations are set on a best estimate basis with no profit margin or allowance for risk/uncertainty. The Government has an on-going obligation to fund the ACC Scheme and its funding policy is long-term in nature pursuant to the Accident Compensation Act. We are able to post-fund for prior years' funding shortfalls or set levies intentionally lower if prior years are in surplus. This means the split between onerous/non-onerous contracts is not meaningful for users of our financial accounts.

2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.

ACC agrees with this proposal. This view logically follows from our response to Question 1.

3. Do you agree with the proposal to amend the PBE IFRS 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.

ACC agrees with this proposal.

This view logically follows from our response to Questions 1 and 2.

4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the Boards' proposals to provide guidance that:
  - (a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;
  - (b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;
  - (c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;
  - (d) arrangements would not be regarded as failing to meet the criterion in PBE IFRS 17.34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:

- (i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or
- (j) a broad government policy framework that includes considering general economic circumstances and community needs.

ACC agrees with the proposed guidance on coverage periods. But like Treasury we believe more guidance should be provided.

Our feedback is consistent with the feedback given in the Treasury response:

*Our understanding of the principle, that the guidance is intended to support, is that the boundary when a coverage period ends is when the entity has the practical ability to reassess the risks and, as a result, can set a new price or level of benefits that fully reflects that reassessment. Treasury agrees that this is a sensible principle.*

*What we are observing in practice is that while the government has the ability to set a new price or level of benefits on an annual basis in accordance with constitutional and budgetary conventions, as a matter of good policy, we are tending towards institutionalising two-to-five year funding/pricing reassessments. On the one hand this provides certainty on levies to the affected constituency and the consultation process is too costly to do annually, but on the other hand a medium-term planned reassessment promotes good stewardship. An example of this trend can be seen in the Natural Hazards Bill currently before the Parliament which institutes a five-year funding review.*

*However, while the **practice** of multi-year pricing assessments may be becoming the norm, the **practical ability** to do an annual assessment remains. Under the current guidance Treasury can foresee that there may be significant challenge for preparers (and opportunities for protracted disagreement with auditors) in debating and proving whether the practice of multi-year pricing assessments constrains the practical ability to do annual assessments. We do not think such debate is helpful, nor should the standard add further to the transaction costs of insurance accounting.*

*We therefore propose an additional guidance proposal on coverage periods, that:*

- *The practice of multi-year funding/pricing assessments does not, of itself, constrain the practical ability of a public sector entity to more frequently change prices and benefits of insurance arrangements.*

*Subsidiary guidance could explain that where there is some legislative constraint on public sector entities reviewing prices, then that will be relevant to the determination of the coverage period, but in the absence of such constraint, then constitutional and budgetary norms would apply.*

5. Do you agree with the proposals to:

- a) require disclosure of information about the nature of the pricing process, including:
  - i. the manner in which pricing/benefits are determined;
  - ii. the timeframes for which they are typically determined; and
  - iii. any other relevant constraints under which an entity operates;

when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

- b) permit the disclosure to be located either:
- i. in the notes to the financial statements; or
  - ii. by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time? Please provide your reasons.

ACC agrees with the proposals that information is publicly available about the pricing process. We also agree that this disclosure should not be required to be in the notes to the financial statements.

Currently ACC's levy setting process is only performed every three years although prices are set for each year as part of this. For instance, in 2021 levies were set for each levy year from 2023-2025. As part of the levy setting process various reports are publicly released which set out the detail of the pricing process. However, like the levy setting process these reports are only produced every three years.

These reports contain significant amounts of detail about the pricing process including each of points noted above. This process remains unchanged over the multi-year levy setting period. We believe this information is what this proposal intends to be available so our preference would be for these reports to cover the disclosure under b)ii above. Even though our pricing reports would be available prior to the financial statements, and would be applicable for the financial statement year, we are not convinced it meets the above definition due to the fact the reports are only produced every three years.

Instead, we suggest either b)ii changes to:

*by reference to an authoritative source that is available to users of the financial statements for the period covered by the financial statements and available earlier or at the same time as the financial statements*

Or else, additional guidance is added to note that the reports from a multi-year pricing process are sufficient to cover this disclosure in each year covered by the pricing process.

6. The NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted. The proposed paragraph 37.1 of PBE IFRS 17 states:

37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to reflect a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).

In contrast, the AASB is proposing no modification to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

- a) Do you support:
- i. the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims; or
  - ii. the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement?

Please provide your reasons.

- b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.

ACC's view is that the requirement of a risk adjustment should be based on a principles approach with the goal being to improve information for the users of public sector financial statements.

ACC's funding policy is based on best estimate assumptions with no pricing for additional risk. The Government has an on-going obligation to fund the ACC Scheme and its funding policy is long-term in nature pursuant to the Accident Compensation Act. ACC is able to adjust future levies to make up for higher-than-expected past claims. Our view is that our balance sheet should be consistent with our funding policy and no risk adjustment should be included.

From the perspective of users of the financial statement it is important for them to understand the uncertainty in large balance sheet items like insurance liabilities. Rather than including the risk adjustment on the balance sheet we suggest that a sensitivity is included for the risk adjustment. Sensitivity analysis generally includes individual changes in assumptions. A sensitivity for risk adjustment would provide additional information in that it considers all assumptions at once. Such a sensitivity disclosure would provide better transparency than embedding a risk adjustment into the balance sheet.

If we are required to include a risk adjustment on the balance sheet, then we are comfortable with the modification above. We note that the proposed wording differs slightly from the current risk margin approach in IFRS 4 in that it explicitly mentions timing and non-financial risk. In PBE IFRS 4 D5.1.6 states:

*The outstanding claims liability includes, in addition to the central estimate of the present value of the expected future payments, a risk margin that relates to the inherent uncertainty in the central estimate of the present value of the expected future payments*

We would appreciate if additional guidance was included as to if/how the methodology proposed modification differs from the current risk margin approach.

7. The Boards propose that the public sector arrangements to which PBE IFRS 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AG16.1 to AG16.25]:
- a. similarity of risks covered and benefits provided;
  - b. identifiable coverage;
  - c. enforceable nature of arrangement;
  - d. source and extent of funding;
  - e. management practices and assessing financial performance; and
  - f. assets held to pay benefits.

Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?

ACC agrees broadly with the proposed indicators.

Under the source and extent of funding additional guidance there is a differentiation made between premiums received from policyholders and funding from other sources (e.g. recurring funding from general taxation). ACC's Non-Earner's account funding is sourced from an appropriation that is paid from general taxation. However, the appropriation amount is calculated in a consistent way with ACC's levied accounts in that it is an estimate of the lifetime costs of the new year of claims. There are also publicly available reports that set out the process for calculating the appropriation released annually.

It is our view that the fact it is funded by general taxation is less of an indicator of insurance than how the amount has been calculated. We suggest that additional guidance is included that differentiates between funding directly out of general taxation and an actuarially calculated appropriation (which aligns better with insurance).

We agree with the Treasury in their suggestion of changing the proposed definition of an insurance contract to:

*An insurance contract is a contract **or statutory arrangement** under which one party (the issuer) accepts significant insurance risk from another party **or group** (the policyholder **or policyholder group**) by agreeing to compensate policyholders **or other affected parties** if a specified uncertain future event (the insured event) adversely affects policyholders **or those other affected parties**.*

8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning

We agree with the feedback from Treasury and also their recommendations on *Similarity of Risks Covered and Compensation Provided* included in the annex to their feedback:

*On indicator (a.) Treasury considers this could be better connected to the definition if the word compensation was used. Treasury also notes that this indicator seems to have two elements:*

- *Similarity or comparability between the risks and the benefits*
- *Similarity with comparable private sector insurance contracts.*

*We believe these two facets could be better explained in the application guidance. We note that often a feature of public sector insurance contracts is that they fill a 'protection gap' that would otherwise not be met by insurance markets. In our view, this is a rationale for inclusion rather than exclusion from the standard.*

*Treasury has a number of recommendations to improve the discussion of the indicators consistent with our earlier recommendations. These are included in the annex to this submission.*

9. The proposed paragraph AG16.2 requires that the indicators outlined in paragraphs AG16.3 to AG16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:
- (a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?
  - (b) would you identify some indicators as pre-requisites for applying PBE IFRS 17 and, if so, which ones, and why?

ACC has the view that some indicators should be given more weight than others.

There are some indicators that we believe are a pre-requisite and need to be met. These are b (identifiable coverage period) and c (enforceable nature of arrangement).

The indicator *f* (assets held to pay benefits) should have a lower weight than other indicators. Our view is that having assets held to pay benefits is not a key requirement of defining an insurance contract, particularly in the public sector where solvency is not such a big issue.

We consider the remaining indicators to be of equal importance with flexibility in how many of these indicators are needed to be met.

10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons

We agree with the feedback given by Treasury:

*If the standard is issued prior to 1 January 2023, improved in accordance with our recommendations, we would agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 January 2025, with early application permitted. If however those conditions are not met, Treasury would suggest deferring the standard application date.*

11. Do you consider there should be any further modifications to PBE IFRS 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them? Please provide your reasons. Please note that the Boards considered, but rejected, proposing modifications to PBE IFRS 17 in respect of public sector arrangements on the following topics:
- a. specifically exempting 'captive' public sector insurers from applying PBE IFRS 17 in their separate general purpose financial statements [paragraphs BC228 to BC236];
  - b. discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC237 to BC259];

- c. the measurement of investments backing insurance liabilities [paragraphs BC260 to BC265]; and
- d. classification and presentation of risk mitigation program and other similar costs [paragraphs BC266 to BC273]. 38 to 39 12

ACC does not see it being necessary to make any further modifications to the standard.

12. Do you have any other comments on the ED?

No

## Exposure Draft 319: Insurance Contracts in the Public Sector

### Insurance Commission of Western Australia Comments

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#### **Sub-grouping of contracts [paragraphs Aus16.1 and Aus22.1 and paragraphs BC19 to BC45]**

*1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.*

Yes, agree.

Unlike for-profit insurers where granular risk information is collected to inform premium setting for sub-groups of policy holders, which in turn contributes to insurer profit margins, this granular level of information is less relevant in the public sector. In the public sector, insurance (or self-insurance) pricing is often performed at a portfolio level with limited information captured in internal systems on the risk profile of sub-groups within the portfolio. In a public sector context, premium cross-subsidisation or community based pricing is generally applied across a portfolio.

*2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.*

Yes, agree.

The Insurance Commission's motor injury insurance and government self-insurance arrangements are issued with a maximum of one year of coverage (whether that be accident year or financial year). Sub-grouping of contracts issued more than one year apart are therefore not as relevant when compared to for-profit insurers who issue multi-year coverage and wish to identify trends in profitability.

#### **Initial recognition when contracts are onerous [paragraph Aus25.1 and paragraphs BC46 to BC50]**

*3. Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.*

Yes, agree.

Systems are not currently established to capture this information and the results are unlikely to be useful for users of the Insurance Commission's financial statements.

**Determining contract boundaries, coverage periods and eligibility for the premium allocation approach (PAA) [paragraphs Aus34.1 to Aus34.3 and AusB64.1 and paragraphs BC51 to BC85]**

4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:

(a) assessing a public sector entity's practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;

(b) a public sector entity's monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity's practical ability to fully price for risks or benefits;

(c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;

(d) arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:

(i) risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or

(ii) a broad government policy framework that includes considering general economic circumstances and community needs.

Please provide your reasons.

Yes, agree.

The proposed guidance should remove any ambiguity for public sector entities applying the premium allocation approach methodology (in particular associated with contract and coverage periods) that may have arisen from unique public sector specific situations such as Ministerial involvement in premium setting, monopoly situations and obligations to provide various insurance products. This will help avoid having lengthy justification discussions with auditors on the interpretation of what is the coverage period which forms the basis of the eligibility to apply the premium allocation approach.

5. Do you agree with the proposals to:

(a) require disclosure of information about the nature of the pricing process, including:

- (i) the manner in which pricing/benefits are determined;
- (ii) the timeframes for which they are typically determined; and
- (iii) any other relevant constraints under which an entity operates;

when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and

(b) permit the disclosure to be located either:

- (i) in the notes to the financial statements; or
- (ii) by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?

Please provide your reasons.

Yes, agree. This disclosure information may be useful to users of financial statements and should be already disclosed by public sector entities (whether that be in the financial statements or via other documents) or be readily available.

### **Risk adjustment [paragraphs BC86 to BC122]**

6. The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.

The proposed paragraph 37.1 in the NZASB's Exposure Draft states:

37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).

(a) Do you support:

(i) the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or

*(ii) the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?*

*Please provide your reasons.*

The Insurance Commission support no modifications to AASB 17 regarding the risk adjustment requirement. The addition of a risk margin on claim liabilities recognises the inherent risk in the valuation of future claim costs and that such liabilities are not risk-free.

The Insurance Commission intends to continue to apply a risk margin that will achieve a 75% probability of sufficiency across all its insurance portfolios.

The disclosures requirements of AASB 17 will enable users of public sector financial statements to understand the risk margin assumptions of the entity and provide the ability to compare the underlying assumptions of different public sector entities.

*(b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.*

No.

**Scope [paragraphs AusB16.1 to AusB16.25 and paragraphs BC123 to BC211]**

*7. The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:*

- (a) similarity of risks covered and benefits provided;*
- (b) identifiable coverage;*
- (c) enforceable nature of arrangement;*
- (d) source and extent of funding;*
- (e) management practices and assessing financial performance; and*
- (f) assets held to pay benefits.*

*Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?*

Yes, the Insurance Commission agrees with all the proposed scope indicators.

*8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.*

The Insurance Commission has no suggested alternative indicators.

9. *The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:*

*(a) which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?*

*(b) would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?*

The Insurance Commission agrees with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators.

### **Application date [paragraph AusC1.1 and paragraphs BC212 to BC215]**

10. *Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.*

Agreed.

### **Other modifications**

11. *Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?*

No.

Please provide your reasons.

Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:

(a) specifically exempting 'captive' public sector insurers from applying AASB 17 in their separate general purpose financial statements [paragraphs BC215 to BC223];

(b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC224 to BC246];

(c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and

(d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].

## **General matters for comment**

*The AASB would also particularly value comments on the following general matters, to the extent they have not already been provided in response to specific matters for comment above.*

*12. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?*

Not that the Insurance Commission is aware of. Claims liabilities are excluded from government net debt calculations.

*13. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?*

Not that the Insurance Commission is aware of.

*14. Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?*

Unlikely that AASB17 will be any more useful to users than the existing AASB 1023. However, hopefully the new standard will ensure greater consistency of accounting treatment (and therefore increased comparability) in public sector entities across Australia.

*15. Whether the proposals are in the best interests of the Australian economy?*

Unsure whether AASB 17 will have any impact on the Australian economy, but hopefully the new standard will ensure greater consistency of accounting treatment in public sector entities across Australia.

*16. Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).*

As the Insurance Commission applies AASB1023 for the majority of its Funds, the cost of implementing AASB 17 is considered to be immaterial.

8 June 2022

Ms April MacKenzie  
Chief Executive  
External Reporting Board  
PO Box 11 250  
Manners Street Central  
Wellington 6142

Dear April

**ED NZASB 2022-3 – Insurance Contracts in the Public Sector**

I am writing in response to your invitation to comment on ED NZASB 2022-3 – Insurance Contracts in the Public Sector. Thank you for the opportunity to comment.

Te Pūtea Matua is preparing to establish a Depositor Compensation Scheme for New Zealand, subject to the passage of draft legislation. We have reviewed the draft standard and discussed it with the Treasury. We are broadly supportive of the proposed standard subject to the matters outlined in the submission on this standard being made by the Treasury.

We support the submission made by the Treasury and refer NZASB to that submission for a more in depth discussion of these matters and responses to NZASB specific questions.

Yours sincerely



**Greg Smith**  
Assistant Governor/General Manager Finance & Commercial Operations



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Our ref ED 319 Insurance Contracts in  
the Public Sector(67385756.1)  
Contact Leann Yuen (02) 9335 7649  
Will Tipping (02) 9455 9120

15 June 2022

Dear Keith

## **ED 319 Insurance Contracts in the Public Sector**

We are pleased to have the opportunity to comment on Exposure Draft 319 *Insurance Contracts in the Public Sector* (ED 319). In light of the significant differences with respect to the nature and purpose of insurance in the public sector, we appreciate the initiative taken by the respective standard-setting boards in Australia and New Zealand to provide a standard intended to facilitate the appropriate accounting for insurance contracts in the public sector. We believe this is necessary to reduce unnecessary costs for preparers while maintaining relevance for users of the financial statements which would also reduce diversity in practice both across and within the two jurisdictions.

Overall, we support the proposals. In our view, the proposed modifications sufficiently reflect the circumstances specific to the public sector that are largely driven by the need to provide social benefits over a long term rather than profitability. As for the proposed indicators for scope determination we would appreciate further consideration by the AASB. As noted in our response in the Appendix attached below, requiring enforceability and coverage period are consistent with the approach previously taken by the AASB in developing the not-for-profit guidance for identifying contracts within the scope of AASB 15 *Revenue from the Contracts with Customers*.

In addition, we encourage the boards to consider what impact the proposed disclosure requirement may have for auditors as otherwise, the reference to materials outside of financial statements could lead to an unintended consequence of increased audit effort.

Please refer to the Appendix for our detailed comments on the specific and general matters for which feedback was requested.



**Australian Accounting Standards Board**  
*ED 319 Insurance Contracts in the Public Sector*  
15 June 2022

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Leann Yuen on (02) 9335 7649 or [lyuen@kpmg.com.au](mailto:lyuen@kpmg.com.au) , Will Tipping on (03) 8663 8032 or [w tipping1@kpmg.com.au](mailto:w tipping1@kpmg.com.au) , or David Ji on (03) 8663 8467.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Leann Yuen'.

Leann Yuen  
Partner

A handwritten signature in blue ink, appearing to read 'Will Tipping'.

Will Tipping  
Partner

*Enclosures:*

Appendix 1: Specific matters for comment



## Appendix

### ***Specific matters for comment***

**1. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are onerous or non-onerous at initial recognition in a public sector context? Please provide your reasons.**

We agree with the proposal for the following reasons:

- Objectives of many public sector arrangements are to manage the financial viability of those arrangements over a long term by way of investment returns or some other source of funding rather than via periodic repricing to issue profitable contracts.
- Identification of non-onerous versus onerous contracts unlikely to affect pricing decisions as these decisions are not usually driven by profitability considerations.
- Allowing the unit of account to be at a portfolio level rather than at the lower level of a group as required by AASB 17 would be more compatible with current practice and therefore less burdensome for entities already applying the Liability Adequacy Test for identifying an unexpired risk liability under AASB 1023 General Insurance Contracts.

For clarity, we recommend revising the draft wording in paragraph Aus16.1 to be consistent with that of AASB 17.16. As drafted in the exposure draft, it is not clear whether paragraph Aus16.1 is intended to provide relief from the requirements in AASB 17.16 (which we understand to be the boards' intent) or if it is requiring to sub-group on another basis, i.e., other than those profitability-based criteria stipulated in AASB 17.16.

**2. Do you agree with the proposal to not require the sub-grouping of contracts based on whether they are issued more than a year apart in a public sector context? Please provide your reasons.**

We agree with the proposal to not require a group of contracts issued no more than a year apart for a similar reason to that outlined in our response to question 1 above, i.e., profitability is not generally considered to be the main focus in the public sector. For this reason, we do not expect the loss of such information as the development of profitability as noted by the IASB in developing the annual cohort requirement to be a cause of concern in a public sector context.

As per our comment on paragraph Aus16.1, we recommend revising the draft wording in paragraph Aus22.1 to be consistent with AASB 17.22, i.e., an entity is permitted to include contracts issued more than one year apart in the same group.



**3. Do you agree with the proposal to amend the AASB 17 initial recognition requirements in a public sector context to not depend on when contracts become onerous? Please provide your reasons.**

We agree with the proposal to amend the initial recognition requirements. In addition, based on our experience with general insurers in the private sector is that the time lag between policy inception date and coverage start date was in most cases minimal, with the exception of “retroactive” reinsurance arrangements and extended warranties.

**4. Do you agree with the proposed guidance on coverage periods, which would impact on applying the eligibility criteria for using the premium allocation approach (PAA) in a public sector context? In particular, do you agree with the proposals to provide guidance that:**

**a) assessing a public sector entity’s practical ability to fully price for risks or benefits would include assessing the ability of its controlling government, and any relevant Minister(s), to decide on pricing or benefits;**

We agree with the above proposal because without this modification those public sector entities that do not possess the direct power to reset a price or benefit level would struggle to apply AASB 17.34(a) or AASB 17.34(b)(i). In our view, taking into account the ability of an entity’s controlling entity does not change the substance of the requirement for the practical ability in AASB 17.34.

**b) a public sector entity’s monopoly position in providing coverage for risks in a particular community, of itself, would not affect the entity’s practical ability to fully price for risks or benefits;**

We agree that an entity’s monopoly position would not affect its practical ability to change a price or level of benefits for a portfolio of contracts.

In our view, an entity’s inability to withdraw from its market, or its obligation to continue providing insurance services ends when the entity or its controlling entity has the practical ability to reprice. Said another way, although the decision to stop coverage may be subject to a legislative change or similar, this in our view would not have a bearing on the determination of the practical ability to fully price for risks or benefits.

**c) any legislated obligation for a public sector entity to stand-ready to insure future policyholders, of itself, is not an obligation that would affect the practical ability to fully price for risks or benefits;**

We agree with the proposed amendment. Refer to our previous comments for Question 4a and 4b as to why we agree.

**d) arrangements would not be regarded as failing to meet the criterion in AASB 17 paragraph 34(b)(ii) simply because premium pricing for coverage up to the date when the risks are reassessed takes into account:**



- i. **risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits using a medium to long term view; and/or**
- ii. **a broad government policy framework that includes considering general economic circumstances and community needs.**

We support this proposal to provide relief from paragraph 34(b)(ii) as otherwise, public sector entities would likely fail the practical ability test and end up having to perform insurance liability valuation over very long contract boundaries.

**5. Do you agree with the proposals to:**

**a) require disclosure of information about the nature of the pricing process, including:**

- i. **the manner in which pricing/benefits are determined;**
- ii. **the timeframes for which they are typically determined; and**
- iii. **any other relevant constraints under which an entity operates;**

**when a public sector entity takes into account risks that relate to periods after the reassessment date based on having a policy of determining prices and benefits over a period longer than a single coverage period; and**

**b) permit the disclosure to be located either:**

- i. **in the notes to the financial statements; or**
- ii. **by reference to an authoritative source that is available to users of the financial statements on the same terms as the financial statements and at the same time?**

We agree with the principle that when a public sector entity takes into account risks that relate to periods after the reassessment date, it is appropriate for disclosure regarding how the pricing/benefits are determined and the timeframes for which they are typically determined.

However, we do not agree that this disclosure should be permitted by reference to an authoritative source available to the users of the financial statements on the same terms. Incorporating disclosure that has already been prepared for another authoritative source does not result in undue cost and effort to the preparer. It also does not enhance comparability between public sector entities for the users of the financial statements.

By referring to an authoritative source outside of the financial statements, we also believe it will create additional work for the user, Directors, and auditors.



- Users will have to go to an additional document to understand the pricing, which may not be written in a way the user will understand or how it relates to the entity.
- Directors declare that the financial statements provide a true and fair view, with the information included outside of the financial statements, the Directors will have to consider how to make this statement when the financial statements refer to sources outside of the financial statement.
- Auditors will have to consider the requirements of *ASA 720 The Auditor's Responsibilities Relating to Other Information* and determine what additional procedures may have to be performed to support the audit opinion. This may create an increase in audit fees due to the additional work involved in obtaining and documenting the audit evidence.

We would like to understand the Auditing and Assurance Standards Board's thoughts on this amendment and what they see as the impact to auditors.

For the reasons above, we believe the disclosure should be included in the notes to the financial statements.

- 6. The AASB is proposing no modifications to the AASB 17 requirement for a risk adjustment that reflects the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.**

**In contrast, the NZASB is proposing a modification to require a risk adjustment that reflects an amount that is estimated to achieve a 75 per cent confidence level for a liability for incurred claims, which can be rebutted.**

**The proposed paragraph 37.1 in the NZASB's Exposure Draft states:**

**37.1 Notwithstanding paragraph 37, for a public sector entity, there is a rebuttable presumption that the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk is an adjustment to achieve a 75% confidence level (that is, a 75% probability of liabilities for incurred claims being adequate to meet actual claims).**

**a) Do you support:**

- i. the AASB approach of not modifying AASB 17 regarding the risk adjustment requirement; or**
- ii. the NZASB approach of specifying a rebuttable presumption that a risk adjustment reflecting an amount that is estimated to achieve a 75 per cent confidence level is included when measuring a liability for incurred claims?**



We support the proposed AASB approach of not modifying the risk adjustment as this is consistent with principle-based standard setting. Although NZASB approach of standardising the probability of sufficiency with a rebuttable presumption would make the requirement relatively straightforward to implement, we note that the risk adjustment for non-financial risk as defined and measured under AASB 17 is entity-specific.

Our view of the risk adjustment is that it is “revenue-like in nature” and therefore its information value for many of the public sector entities will not be the same as that for their private sector counterparts, as the approach to pricing the risk in their contracts is different.

We have also considered the fact that for onerous contracts, the risk adjustment increases the insurance liability whereas for profitable contracts the liability does not increase to the extent the difference between future cash inflows and outflows exceeds the risk adjustment. On the other hand, we have considered that the risk adjustment information would be useful from a claims and claims management perspective, which we understand is where users’ focus lies in the public sector. On balance, we support the proposed unamended application of the risk adjustment by the AASB.

**b) Do you have a suggested alternative approach? If so, please outline the approach and provide supporting reasoning.**

No, we do not have an alternative approach to suggest.

**7. The Boards propose that the public sector arrangements to which AASB 17 should apply would be identified based on a collective assessment of the following proposed indicators [paragraphs AusB16.1 to AusB16.25]:**

- a) similarity of risks covered and benefits provided;
- b) identifiable coverage;
- c) enforceable nature of arrangement;
- d) source and extent of funding;
- e) management practices and assessing financial performance; and
- f) assets held to pay benefits.

**Do you agree with these proposed indicators? If you disagree with the proposed indicators, which of them would you exclude?**



Our comments on each of the indicators are as follows:

***Similarity of risks covered and benefits provided***

It would be helpful to reduce ambiguity that could potentially arise when applying this indicator. For instance, an entity concluding that its risks and benefits are not similar to those in the private sector may not necessarily indicate that its arrangements are not an insurance contract for the reason outlined in paragraph BC131 of this ED, i.e., some arrangements that are clearly insurance contracts may be issued exclusively in the private sector. We recommend including such an exception in the revised wording.

***Identifiable coverage period***

We agree with this indicator. However, see our response to question 9 as to when this indicator should be considered in the assessment

***Enforceable nature of arrangement***

We agree with this indicator. However, see our response to question 9 as to when this indicator should be considered in the assessment.

***Source and extent of funding***

We agree that the determination of who pays (source) and how much of the claims expense is funded by premiums (extent) could be useful in assessing whether the arrangement in question is insurance-like as this would ordinarily be a common feature of insurance contracts issued and sold in the private sector.

However, we envisage there may be inconsistency in how this indicator is applied when the funding is provided by both the policyholder and sources other than policyholders. As proposed, there is not a clear indication of what is the tipping point of being / not being an insurance contract when the funding is from a source other than a policyholder. We can see how different interpretations could be applied in determining what would be considered substantive funding by each public sector entity.

***Management practices and assessing financial performance***

We agree with this indicator. However, based on the current wording of the proposed paragraphs, it is not clear whether presence or absence of the activities described in AusB16.22 (a)-(c) would be the sole determinant factor in assessing this indicator. This is because in the paragraph preceding AusB16.22(a) an entity is required to have objectives, policies and processes in conjunction with a financial performance assessment based on meeting the objectives and how successfully the policies and processes have been applied. In our view, merely conducting the three activities, i.e.,



underwriting and risk management, managing the entity's capital and ensuring a fair and prudent claims management would not, in itself, meet those requirements described in the paragraph preceding AusB16(a).

We would encourage the boards to provide more clarity as to how conducting the specified activities are expected to satisfy whether an entity has objectives, policies and processes for managing risks associated with those arrangements and for its financial performance to be assessed based on how the entity meets those objectives and how successfully it applies those policies and processes.

### ***Assets held to pay benefits***

We agree with this indicator.

#### Additional comment:

In paragraph BC198-BC200 of the exposure draft we note that the boards considered but rejected the idea of providing an explicit guidance by way of identifying specific entities or activities that should be scoped out of AASB 17. However, application paragraphs B26 and B27 of AASB 17 provide examples of contracts which are an insurance contract and those which are not, respectively.

We would encourage the AASB to provide further guidance with regard to whether and how those paragraphs intended for for-profit private sector entities are to be applied by public sector entities. Further, in our view B26 and B27 provide the AASB with an example approach to help drive consistency in interpretation of the scope requirements given current diversity in practice.

### **8. Whether or not you agree or disagree with some or all of the indicators, do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.**

We agree with the indicators that have been identified for determining whether an arrangement is an insurance contract. See our response to question 9 as to when two of the indicators should be considered in the assessment.

### **9. The proposed paragraph AusB16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25 are considered collectively so that a balanced judgement can be made. The Boards considered that the proposed indicators should not be ranked or be assigned a relative significance because their relative significance is expected to depend on the circumstances. Do you agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators? If you disagree:**



- a) **which indicators would you identify as being most significant, or how would you otherwise rank the indicators, and why?**
- b) **would you identify some indicators as pre-requisites for applying AASB 17 and, if so, which ones, and why?**

In our view, an insurance contract cannot exist unless the arrangement is enforceable and the period over which the insurance risk is covered is known. We believe this is consistent with identifying a revenue contract in the scope of AASB 15 *Revenue for Contracts with Customers* for a not-for-profit entity. Therefore, a process should be followed similar to the steps required for a not-for-profit entity in determining whether they have an arrangement in the scope of AASB 15, specifically:

- Identify whether there is an enforceable agreement (AASB 17. AusB16.13 - AusB16.16), which is similar to the requirements in AASB 15.F10 – F18; and then
- Identify whether there is a coverage period (AASB 17.AusB16.10 – AusB16.12), which is similar to identifying the period over which the good or services are transferred in identifying sufficiently specific performance obligations in AASB 15.F20(d) and F24.

Once it has been determined that there is an enforceable agreement and there is a known coverage period (i.e., a period the revenue can be recognised over) then we believe the other indicators should be considered collectively to determine whether an insurance contract exists in the arrangement.

Of the remaining indicators we do not think that one is more significant than the other. We see that the application of the indicators is similar to those in other accounting standards, such as the principal vs agent indicators in AASB 15. None of these indicators outweigh the other and are viewed collectively based on the terms and conditions of the contract that is being assessed.

**10. Do you agree with the proposed mandatory application date for public sector entities of annual periods beginning on or after 1 July 2025, with early application permitted? If not, what alternative application date would you suggest? Please provide your reasons.**

We agree with the proposed application date. The proposed modifications intended to provide relief would, in our view, significantly reduce the implementation challenges experienced by private sector entities that were largely driven by the need to account for insurance liabilities at an increased level of granularity. Notwithstanding the data and system challenges, the impact of which will be greater for public sector entities coming into the scope of AASB 17 with little or no experience of applying AASB 1023/NZ IFRS 4, we expect the proposed application date would provide sufficient time for those entities to be ready in time to fully operationalise the new standard by 1 July 2025.



## Other modifications

**11. Do you consider there should be any further modifications to AASB 17 in respect of public sector arrangements? If so, what modifications would you suggest and on what basis would you justify them?**

Please note that the Boards considered, but rejected, proposing modifications to AASB 17 in respect of public sector arrangements on the following topics:

- a) specifically exempting ‘captive’ public sector insurers from applying AASB 17 in their separate general purpose financial statements [paragraphs BC215 to BC223];
- b) discounting and inflating requirements applied in measuring insurance liabilities [paragraphs BC224 to BC246];
- c) the measurement of investments backing insurance liabilities [paragraphs BC247 to BC252]; and
- d) classification and presentation of risk mitigation program and other similar costs [paragraphs BC253 to BC260].

We do not have any further modifications to add.

## General matters for comment

The AASB would also particularly value comments on the following general matters, to the extent they have not already been provided in response to specific matters for comment above.

**12. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, including Government Finance Statistics (GFS) implications?**

We are not aware of any specific issues.

**13. Whether the proposals create any auditing or assurance challenges and, if so, an explanation of those challenges?**

We do not expect the proposals to create any auditing or assurance challenges, except as indicated in question 5.



**14. Whether, overall, the application of AASB 17, modified as proposed, would result in financial statements that would be useful to users?**

In our view, the proposed modifications would benefit users as the relevance of the financial statements is expected to be enhanced.

**15. Whether the proposals are in the best interests of the Australian economy?**

We do not have any specific comments on whether the proposals are in the best interests of the Australian economy.

**16. Unless already provided in response to specific matters for comment above, the costs and benefits of the application of AASB 17, modified as proposed, relative to the current requirements, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the Boards are particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements (AASB 1023).**

We do not have any specific comments on the costs and benefits of the proposals.