Australian Government
Australian Accounting Standards Board

AASB 17 Public Sector Focus Group – Notes of 28 February 2024 meeting

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Welcome and introduction

1. Members noted that the meeting is a discussion forum only and, in terms of determining the application of AASB 17 to any particular entity, not a substitute for professional advice.

Scope – Agenda paper 2

2. Members noted that, in some cases, judgement would be needed to determine whether a coverage period is based on a levy period [AASB 17, Appendix E.14(b)] or by reference to another contract's coverage period [AASB 17, Appendix E.14(c)].

3. Members observed that entities may have a mix of business, some of which does not involve a clearly identifiable coverage period, but the liabilities for incurred claims are essentially the same as for cases where there is an identifiable coverage period.

    (a) For example, when 'policyholders' do not pay premiums but, instead, claims are funded on a PAYG basis through government appropriations, there is no readily identifiable coverage period. For some entities it would be desirable to treat all the liabilities as being within the scope of AASB 17/PBE IFRS 17, while for others it would not. The AASB and NZASB were aware of the potential for there to be conflicting incentives to classify arrangements within or outside the scope of AASB 17/PBE IFRS 17 depending on the entity's circumstances.

    (b) It may be possible to view some arrangements that are funded on a PAYG basis as being on a 'claims made' basis and to identify a coverage period on that basis. That is, the funding for a particular financial year is intended to address claims made in that period by those with an entitlement to compensation, which may relate to events that occurred in the current or prior periods. [A claims made arrangement is distinct from an arrangement that involves PAYG funding for claims expected to be paid in a financial year.]

    (c) However, this type of arrangement might only be regarded as establishing a coverage period between the entity paying claims and the funding agency – not between the entity paying claims and the third-party claimants.

Risk adjustments and skewed distributions – Agenda paper 3

4. Members noted that skewed distributions can give rise to expected values which achieve a probability of adequacy well above 50%. They observed there may be cases where an entity determines that such a level of adequacy exceeds the amount needed to reflect the compensation the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

5. This raises the possibility of negative risk adjustments and the meeting noted the following points in this regard.

    - An entity might deliberately subsidise risks because it has surplus net assets or due to deliberate government policy, which may imply a negative risk adjustment is possible –

this may be the case for some not-for-profit entities in either the private or public sectors.

- AASB 17/PBE IFRS 17.33 implies that the estimated fulfilment cash flows (without a risk adjustment) would be the minimum liability, which implies there could never be a negative risk adjustment.
- In principle, it seems wrong to have 'negative compensation'.
- If there is another source of funding an entity receives to subsidise risk, that other source of funding could be part of the fulfilment cash flows, indicating there would be no negative risk adjustment.
- Inherent limitations in the accuracy of some models, particularly for the impact of extreme natural disasters, means it may not be reasonable in all circumstances for entities to determine a risk adjustment – positive or negative.
- Entities may plan for losses on insurance contracts while expecting to break even after investment returns, which may imply a negative risk adjustment is possible. However, the risk adjustment relates only to non-financial risk, which may imply this is not a basis for a negative risk adjustment.

6. Members noted the following points/perspectives in regard to the potential need for disclosure:
   - Entities currently reporting under AASB 137/NZ IFRS 37 do not typically include risk adjustments and do not make disclosures, possibly supporting the non-disclosure view
   - Entities might have a zero risk adjustment or (possibly a negative risk adjustment), but they cannot have no risk adjustment – accordingly, at a minimum the disclosure about confidence level [AASB 17/PBE IFRS 17.119] should be applied
   - Additional disclosure about risk adjustments when distributions are skewed might most usefully be presented in the sensitivity disclosure note
   - Disclosure seems appropriate even if the distribution is relatively normal to help users understand the basis of measuring liabilities for incurred claims.
   - Entities with a zero risk adjustment should explain the basis for that assessment.
7. Members noted that, in a whole of government reporting context, multiple entities with insurance contracts might need to be consolidated and whether a whole of government perspective on the risk adjustment (different from the sum of each entity's perspective) might be needed. It was noted that discussions at the IFRS 17 TRG[1] indicated flexibility around whether a 'consolidated' perspective is taken or the stand-alone entities' perspectives are 'preserved' at the consolidated level. [Also see the notes on guarantees below.]
8. Members also noted, in the commercial sector, it would be expected there would be a relationship between what an entity charges and the level of risk, while the same may not be true in the public sector for a range of possible reasons.

'Group' versus 'portfolio'

9. Members noted that, under the AASB 2022-9 modifications to AASB 17, public sector entities can choose not to sub-group portfolios of contracts based on their date of issue and whether (at initial recognition) they are expected to be onerous.

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1 See in particular IFRS 17 TRG Meeting Summary, May 2018, paragraph 15

10. Members seemed comfortable with the references to 'group' and 'groups' in AASB 17 and that it is practicable to apply the Standard on the understanding that, for a public sector entity, the minimum unit of account can be a 'portfolio'.

Government guarantees

11. Members noted there can be both implicit and explicit guarantees.

12. In terms of explicit guarantees, members noted there is a range of circumstances, including 'guarantees' that:
    - would be triggered only in the event that substantial reserves are depleted;
    - are expected to be triggered at some stage on the basis that the entity is exposed to extremely high risks;
    - will involve grants;
    - will involve loans, which may or may not be at concessional rates; and/or
    - are subject to Ministerial discretion.

13. Members discussed that, in determining any accounting for guarantees, the facts and circumstances of each entity and its guarantees would need to be considered to determine whether, for example:
    - projected cash flows from triggering a guarantee are 'fulfilment cash flows' under AASB 17
    - whether guarantees should impact on the determination of a discount rate
    - whether guarantees should impact on the determination of a risk adjustment.

14. Relevant facts and circumstances might include whether:
    - the entity can, or is required to, set premiums/levies commensurate with the risks insured
    - there is a contractual arrangement, specific legislative provision, or explicit government direction between the entity and government about the terms of a guarantee.

15. Members noted that any amounts recognised in respect of the guarantees themselves would eliminate on consolidation at the whole of government level. By implication, any impact of guarantees on measuring risk adjustments at the entity level might also eliminate. Accordingly, a simple aggregation approach to consolidation would not be appropriate.

16. Some members observed that it would be difficult to factor an implicit entity-wide guarantee specifically into the measurement of insurance contracts.

Possible future topics

17. The following were mentioned as possible future topics for discussion by the Focus Group:
    - illiquidity premiums in a public sector context;
    - coverage periods in a PAYG context;
    - further discussion on risk adjustments.

AASB 17 TRG Public Sector Working Group members

Attended	**Organisation**
Wei Ding and Kim Niquet	Comcare
Michael Burns	iCare
Jason Bain	EY
Antony Claughton and Francis Beens	Finity
Weini Liao	Audit NSW
Andrea Gluyas	NHC
Andrew Smith	Scyne
Boris Petrovic and Lolanda Calabrese	LTSA
Andrew Toone	Deloitte
Richard Korte	ACC
Robert McLean	Qld Treasury
David Harrihill and Paul Caskey	RTWSA
Angela Ryan	NZ Treasury
Warwick Spargo	RSM
Will Tipping	KPMG
Richelle Greenwood	MAIB
Vanessa Villani	DTF Vic
Apologies	**Organisation**
Ivan Satalic and Pulkit Jain	ARPC
Rick Howe	LTSA
Tracey Keenan	NHC