



Meeting information

AASB 17 Insurance Contracts Transition Resource Group (TRG)

17 June 2021

2pm – 4pm

Objective:

- Update on the administration of the AASB TRG.
- Update from APRA on feedback received on its recently issued discussion paper and quantitative impact study on integrating AASB 17 into the capital and reporting frameworks.
- Update on the AASB's project on the application of AASB 17 for public sector entities.
- Update on:
 - VFA focus group – a subgroup of the AASB TRG
 - PHI focus group – a subgroup of the AASB TRG
- Discuss paper on the impact of cash flow settlement arrangements for reinsurance issued and held.
- Update from the Actuaries Institute Taskforce on recent activities in relation to AASB 17.

Note: These minutes provide a summary of discussion only and any views or interpretations do not constitute professional advice. The AASB expressly disclaims all liability for any loss or damages arising from reliance upon any information in this document.

Topic	Agenda paper
Introduction and administration of TRG	
<p>A member of the AASB staff provided an update on the AASB website and administration of the TRG:</p> <ul style="list-style-type: none">• The AASB has recently updated its website and the AASB TRG papers and minutes are now available on the new website. The AASB TRG webpage will be updated further to enable visitors to search for information more easily. Members and visitors are encouraged to reach out to the AASB staff if they are unable to find relevant papers on the website.• Papers tabled for discussion at AASB TRG meetings are posted to the webpage within 5 business days of the meetings. In relation to the minutes of TRG meetings, AASB staff will aim to share draft minutes with members within 10 business days after meeting, with a comment period of 5 business days. The minutes will then be reviewed by AASB supporting staff to ensure that the documents meet the accessibility criteria before posting to the AASB TRG webpage. The total process (between the date of the meeting and posting to the webpage) is expected to take approximately 3-4 weeks.	
Updates on APRA QIS feedback and APRA Connect	APRA
<p>In November 2020, APRA issued a quantitative impact study (QIS), for completion by selected insurers, and a discussion paper outlining APRA's proposals for integrating AASB 17 into the capital and reporting frameworks and other updates to LAGIC (link to discussion paper and QIS).</p>	

Submissions were due to APRA by 31 March 2021. A member from APRA provided an update on the responses to the consultation and next steps:

- APRA continues to work towards the timeline communicated in previous discussion papers (refer to slide 2). 22 submissions were received in relation to the discussion paper (refer to slide 3). APRA is working through the feedback in order to identify areas of focus.
- Slides 4-6 summarise the key feedback items received by APRA. In relation to areas or topics for which respondents were not supportive, a member asked if APRA had received suggestions or alternative proposals. The member from APRA responded that the responses to the QIS and discussion paper were still being analysed.
- Slide 7: APRA is working with the Actuaries Institute to determine regulatory adjustments needed to achieve capital neutrality. Feedback from the submissions have identified that refinements are required to take into account accounting accruals such as receivables and payables relating to premiums, claims, reinsurance expenses, other fees and commissions and tax. A member observed that adjustments appear to be intended to align the AASB 17 basis with the current view under AASB 1023 and asked if any adjustments proposed will be reviewed in future years when AASB 1023 is fully transitioned out. The member from APRA responded that this is a possibility. Another member suggested that industry bodies such as the Insurance Council of Australia (ICA) could provide APRA with feedback from the industry on whether the articulation of principles achieve the intended outcomes. The member from APRA added that feedback can also be provided directly to APRA or via the Actuaries Institute working groups.
- Slide 8 - APRA has issued an industry-wide survey in May to assess the industry's progress towards implementation of AASB 17 and expected capital impacts of the LAGIC updates. Responses are due by 7 July.
- Slides 9-10 – APRA is intending to issue another consultation at the end of 2021 which will include draft standards and a full industry-wide QIS to all insurers. The full QIS will likely build on the AASB 17 primary financial statements (similar to the previous QIS) with some adjustments based on industry feedback received on the recent QIS, and will include a request for more granular capital information in order to support the assessment of capital impacts. In relation to general insurance capital information, the previous QIS included a liability form – this will be adjusted in the next QIS based on feedback received in the recent submissions.

A member asked if the QIS will be issued to Level 1 and Level 2 entities. The member from APRA responded that a decision had not yet been made but the intention at this stage is to include at least Level 1 entities. The member asked if it is possible for the timeline to be staggered if Level 2 entities are to be included in the QIS. The member from APRA responded that this can be considered.

A member asked if each entity can use their FY21 financial years to populate the QIS or whether the QIS will set specific reporting periods for all entities to apply. The member from APRA responded that this had not yet been decided but is open to feedback if insurers have a preference. The member responded that the preference is to apply the entity's own financial year. Another member agreed.

In relation to the timing of the QIS, a member asked if it is possible to have a later response date than 31 March which coincides with the lodgement date for APRA returns for 31 December reporters. The member from APRA responded that this can be considered.

- Slide 11 – General and life insurers will be able to use APRA CONNECT from go-live to update their corporate profile including Responsible Persons. Private Health Insurers will be able to update corporate profile data and submit data for HRS 605. All other

reporting will initially remain on D2A and subsequently transferred to APRA Connect as the collections are updated.

Update on AASB project: Insurance Activities in the Public Sector

PS1

A representative of the AASB staff provided an update on the work in relation to AASB 17 for public sector entities:

- Since TRG last met, the Australian and New Zealand Accounting Standard Boards met separately and came to largely consistent decisions on the topic of scope, including on:
 - the criteria in relation to similar risks;
 - basis of participant contributions (e.g. levies);
 - identifiable coverage period;
 - management normally associated with insurance; and
 - identified/earmarked insurance assets.

It is not necessary for all of the factors to be present to be in scope of AASB 17 or that the presence of a single factor requires the application of AASB 17, judgement is required.

A member considered that the list of criteria agreed appeared to be similar to the considerations applied to determine if a contract is an insurance contract. The AASB staff representative agreed that the considerations are similar and that the current discussions reflect how the thinking on AASB 17 has progressed since the previous discussion paper on public sector issued by the AASB.

Another member asked to what extent public sector contracts that are not currently in scope of AASB 1023 are likely to be in scope of AASB 17 under the new proposals. The AASB staff representative expressed the view that there may be some entities currently applying AASB 137 that will be in scope of AASB 17 and others currently in scope of AASB 1023 that will not be in scope of AASB 17, but the extent is unclear at this stage.

- In relation to risk adjustment, each Board had slightly different views. A lot of public sector entities either have explicit or implicit government guarantees and therefore, the consideration needs to address whether risk adjustment requirements translate clearly into the public sector environment.
- The paper on Discounting acknowledges that there are considerations in the public sector environment that are broader than the insurance industry. At this stage, the AASB staff are recommending that this broader topic of the basis of discount rates topic is not tackled as part of this AASB 17 project.
- In relation to PAA eligibility and the determination of contract boundary, the staff observed that there might be monopolies in the public sector and it is not always clear who makes the relevant decisions around factors that may determine contract boundary (e.g. pricing) and whether it is the entity itself or externally imposed by government. The AASB staff will propose a few modifications to AASB 17 wordings in order to provide additional guidance on how to approach those issues.

A member expressed the view that the considerations relating to decisions on pricing appear to be more directly related to the topic of contract boundary. The AASB staff representative agreed and responded that contract boundary is a key consideration for PAA eligibility.

- All the Board papers are publicly available and interested parties are welcome to contact the AASB staff if they would like more information. The agenda paper provides a list of topics to be covered in future meetings.
- A member asked if there is an intention to have a sub-TRG meeting for public sector participants to discuss issues specific to social insurance. The AASB staff representative responded that outreach may be required in relation to the more controversial topics such as risk adjustment, however, the nature of the outreach has not yet been determined. The AASB staff representative considered that field testing will likely be required. A member asked whether the public sector focus group is being used as a forum for capturing initial comments on proposals. The AASB staff representative responded that members of the focus group are notified when Board papers are posted in case they would like to discuss or provide feedback.
- The AASB staff representative noted that any modification to AASB 17 for the public sector has to be justifiable on the basis that there are public sector circumstances that are different to the circumstances envisaged by AASB 17.

Variable Fee Approach (VFA) focus group	ATT1
--	-------------

The co-ordinator of the focus group provided an update on the VFA focus group.

- The coordinator provided a reminder of the purpose and function of the focus group. There has been no update to the membership of the focus group in relation to preparers but a member of the AASB staff has been added to the group.
- Please refer to ATT1 for a list of the topics discussed since the March 2021 TRG meeting.
- The cadence of meetings have been updated to occur on a monthly basis (subject to their being topics of general interest to discuss) and the focus group is expected to continue until December 2021.
- There has been a shift in the approach of the focus group away from finalising interpretation papers towards discussion of practical application issues. Members with VFA related issues are encouraged to reach out to the focus group.

Private health insurance (PHI) focus group	ATT2, ATT2.1, ATT2.2
---	-----------------------------

The co-ordinator of the focus group provided an update on the PHI focus group.

Reminder: The AASB and the AASB TRG do not provide accounting guidance. The papers reflect the discussions of the focus group and may be useful in providing other PHI preparers with an understanding of how participants in their industry are considering issues related to the implementation of AASB 17.

- The co-ordinator provided a reminder of the purpose and function of the focus group.
- Slide 2 of ATT2 provides a list of the topics tabled at AASB TRG meetings and other topics being discussed by the focus group.
- Two papers are tabled for discussion. The preparers of the papers provided an update on the content of the papers.
- Slides 3-4 of ATT2 *PAA eligibility* – The paper discusses the eligibility for certain PHI products (PHI Complying Health Insurance Products (CHIP) and PHI overseas student contracts) to apply the PAA. The general consensus was that:
 - CHIP usually have coverage periods of less than one year and will therefore, be automatically eligible to apply the PAA. Some funds allow for prepayment of CHIP policies for longer periods but these are generally not expected to be material.

Materiality should be assessed based on the specific facts and circumstances of each fund.

- Overseas visitor and overseas student products with coverage periods of 12 months or less will automatically qualify for the PAA. Products with coverage periods that are longer than one year may need to be assessed for PAA eligibility. A member asked if student business (both short term and longer term contracts) could be grouped into the same portfolio resulting in a weighted average coverage period of a group of such contracts of for example, 15 or 18 months (as opposed to treating 1 year contracts as a single group and 3-5 years as a separate group). The presenter of the paper responded that it would depend on the practicalities applicable to the entity / products and that a number of approaches were discussed by the focus group, including the approach proposed by the member.

The focus group also discussed considerations relevant to the PAA eligibility assessment and examples of possible testing methodologies are included in the paper.

- Slide 5 of ATT2 *Risk equalisation* – Under Risk Equalisation Scheme, all PHI insurers pool their claims in relation to policyholders over 65 years of age or higher cost claims. Three key questions were considered:
 - whether the scheme needed to be accounted for separately as a reinsurance contract - the focus group determined that the scheme is not a reinsurance contract.
 - whether amounts arising under the scheme are within the fulfilment cash flows of the insurance contracts – the focus group considered that they are as they are directly linked to the PHI contracts issued and therefore part of the fulfilment cash flows.
 - the treatment of these schemes under the PAA – the focus group concluded that the treatment is mostly unchanged from current accounting.

Discussion paper: Impact of cash flow settlement arrangements for reinsurance issued and held	ATT3
--	-------------

The preparer of the paper provided an update on the paper:

- The key question discussed in the paper is about whether net settlement arrangements in reinsurance contracts impact the presentation of insurance revenue and insurance service expense (for issued contracts) or reinsurance income and expense (for reinsurance held) in profit or loss.
- This paper was previously discussed at the AALC. A member supported the majority view expressed in the AALC which supports gross presentation of revenue and expense in profit or loss. The member considered that principle of substance over form should apply and therefore, the form of settlement should not impact the presentation of revenue and expenses in profit or loss. Another member expressed the view that AASB 17.B121 does not allow for a net presentation due to how insurance revenue is expected to be derived.
- The Chair of the AALC noted a view expressed in the AALC that the example serves as a helpful reminder that a cedant may elect to present reinsurance income and expenses on a net basis under AASB 17 but to be mindful of the requirement for disclosures in the notes to the financial statements.

Actuaries Institute Taskforce	
--------------------------------------	--

The Actuaries Institute Taskforce continues to monitor developments regarding interpretation of AASB 17 from an actuarial and capital perspective. Currently there are three sub-groups of the Taskforce that are assisting APRA to understand the pros/cons of alternative approaches of implementing AASB 17 into the regulatory reporting and capital frameworks for life, general and private health insurers:

- The Reinsurance and Regulatory Reporting Working Group.
- The VFA Working Group.
- The Friendly Societies Working Group – which is a new working group.

AOB

Potential narrow scope amendment - classification and measurement of financial assets on initial application of IFRS 17

- At a recent IASB Board meeting, the Board discussed a possible narrow scope amendment related to the application of IFRS 9 in the comparative financial statements on initial application of IFRS 17. The narrow scope amendments are intended to address potential accounting mismatches between financial assets and insurance contract liabilities to the extent that IFRS 9 was not applied to the comparative period information – [link to the amendment](#). Entities who elected to defer IFRS 9 for application at the same time as IFRS 17 would be impacted by the amendment.

CSM coverage units – annuity products

- An outreach question had been asked by another jurisdiction on how the contractual service margin should be recognised in profit or loss for annuities, particularly for bulk purchase annuities – refer to the agenda for the questions being debated and the views proposed. Members are encouraged to reach to the Chair of the AASB TRG if they are aware of entities in Australia who might be affected by the topic being discussed and would like to be included in outreach discussions. A member considered that entities in Australia are unlikely to be significantly impacted.

Next AASB TRG meeting

- The next AASB TRG meeting is planned for Thursday 23rd September – papers are requested to be submitted 2 weeks prior to the meeting date.

End Meeting

Attendance

Members	Anne Driver (Chair) Stuart Alexander Anthony Coleman Cassandra Cope Brendan Counsell David Daniels Jennifer Dwyer Emily Evitts Fehraz Fallil Scott Hadfield Rhian Saunbury Charles Hett Jeroen Van Koert Chris Maher Louise Miller Aiden Nguyen David Rush Frank Saliba Rob Sharma Warwick Spargo Paul Stacey Leong Tan Ciara Wasley Leann Yuen Brett Pickett
Apologies	Jac Birt Regina Fikkers Karen Foo Victoria Smith
Other presenters	Thomas Moodie Angus Thomson Marion Smith
AASB staff	Eric Lee Helena Simkova Patricia Au