Meeting information

AASB 17 *Insurance Contracts* Transition Resource Group (TRG)
13 June 2024
2 pm – 3.15 pm

Objective:
- Update from APRA on reporting and prudential standards and APRA Connect
- Update on Tax
- Industry papers discussion:
    - Insurance and climate reporting: definition of revenue
- Update on Public Sector Focus Group
- Update from AALC
- IFRS 17 Post Implementation Review
- AOB

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<tr><td>Welcome and introduction</td><td></td></tr>
<tr><td colspan="2">Welcome and introduction by AASB TRG Chair ("The Chair" hereafter).</td></tr>
<tr><td>Update from APRA on reporting and prudential standards and APRA Connect</td><td></td></tr>
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A representative from APRA shared some observations from APRA submissions, noting that the capital levels across the system were relatively stable.
APRA and entities were learning how to better leverage the AASB 17 metrics and whether there were any relevant prudential signals in terms of management reports.
APRA understood that there were challenges for some entities in terms of the lodgement process. APRA had tried to address those challenges with FAQs; however, APRA acknowledged that there were still some gaps, such as missing checks and balances. In order to improve the quality of the data, APRA plans to:

seek input from the industry to identify common issues, such as which line items were not working and how APRA could help with them. AASB will liaise with the AASB TRG members and AALC members to set up a workshop to engage with APRA (Greg Matsin is the designated APRA contact for the outreach); and
encourage entities to build their own checks.
The Chair asked how APRA can get outreach be to get the right people if leveraging AASB TRG or AALC. One member suggested the Big Four can reach out to their clients through multiple channels, and Big Four representatives agreed with this.

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○ On this basis, the Chair confirmed with the APRA representative that the AASB TRG would be willing to support industry outreach to improve the validation of the data.	
Update on Tax	
• **Post-meeting note: The Bill proposing changes to Division 321 of the *Income tax Assessment Act 1997* for alignment with AASB 17 was passed and given Royal Assent on 28 June 2024.** • **Meeting notes**: The Bill proposing changes to Division 321 of the *Income tax Assessment Act 1997* for alignment with AASB 17 that was introduced last year has yet to be passed, pending consideration by the Senate. The delay in passing the bill was due to a measure not related to the general insurance measure. • ATO had been referring insurers to Practice Statement Law Administration 2007/11 (PS LA 2007/11) in relation to ATO's approach to announced but unenacted measures. PS LA 2007/11 provides ATO's policy on tax penalties and interest in situations where a taxpayer either chooses to apply the existing law or chooses to anticipate a law change. • The ATO was aware that the delay in enactment was particularly concerning for December balances and noted that the Parliament would sit again between June 24 and July 4. The Bill might pass and receive Royal Assent before the 15 July lodgement date for 31 December balancers. • If the Bill was not passed by 1 July, the ATO would be uploading some content, which would be consistent with the approach outlined in PS LA 2007/11, on its new measures webpage for general insurers. • The ATO was contemplating contacting the December balance general insurers individually about the delay in enactment. The ATO encouraged the industry to review PS LA 2007/11. • From the representative of a large insurer - The existing tax laws contain a method statement that broadly adopts AASB 1023, and the Bill would link the law to AASB 17. The practical challenge is that AASB 1023 might have been decommissioned, and walking back from an AASB 17 to AASB 1023 basis to perform a tax calculation might not be possible in certain situations. Another challenge was that the Bill would be applied retrospectively. PS LA 2007/11 allows taxpayers to lodge returns based on a law that has not been enacted. The representative encouraged general insurers to start thinking about whether to respect the Bill and talk to their auditors in advance of 30 June.	
Industry papers discussion: Insurance and climate reporting: definition of revenue	**ATT1**
• The Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 sets out which entities would be required to prepare annual sustainability reports for financial years commencing between 1 July 2024 and 30 June 2026 based on three thresholds being; 'consolidated revenue'; 'consolidated gross assets'; and employee numbers. It is not clear how 'consolidated revenue' and 'consolidated gross assets' are intended to be measured by insurance entities applying AASB 17. • The questions are:	

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1. Which amounts listed below should be included when measuring the revenue threshold?
    - Insurance revenue
    - Insurance finance income/expense
    - Investment income/expense – interest/dividends
    - Investment income/expense -- fair value gains and losses
    - Reinsurance recoveries
    - Reinsurance finance income/expense
    - Other revenue
2. Is it clear that entities should take total assets when calculating 'gross assets' for the purposes of the reporting thresholds or are there other subtotals that should be considered?

- In the AASB's Conceptual Framework for Financial Reporting ('Conceptual Framework'), income is defined as: '…increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims'. There are various standards that define or describe revenue. There is a general acknowledgement that income does not necessarily mean revenue.
- The presenter highlighted the arguments for and against including each amount listed below calculating the 'consolidated revenue':
    - Insurance revenue:
        - For: Under AASB 17, insurance revenue is clearly defined as the consideration to which the entity expects to be entitled. So, it would be expected to be included in the revenue calculation. In addition, insurance revenue represents the revenue earned from the entities' ordinary activities, applying the definition of 'revenue' under AASB 15 *Revenue from Contracts with Customers* (AASB 15), and main business activities, applying the description of 'operating' activities under AASB 18 *Presentation and Disclosure in Financial Statements* (AASB 18).
        - Against: None.
    - Amounts recovered from reinsurance contracts:
        - For: Reinsurance recoveries are an 'inflow' to the insurer and could be seen as revenue. Reinsurance could be seen as an 'ordinary' or 'main business activity' of an insurer, given most insurers will also hold reinsurance contracts.
        - Against: Reinsurance recoveries are referred to as 'income' rather than 'revenue' in AASB 17 and for the most part will include claims recoveries and other amounts related to the reinsurance contracts held that are contingent on claims. As reinsurance recoveries fluctuate depending on claims, it can be a volatile metric and could lead to entities moving in and out of climate reporting thresholds regularly depending on claims volatility. Entities are given the option to present reinsurance recoveries net of reinsurance related expense on the face of the profit or loss and in the notes to the financial statements under AASB 17. For this reason, there are scenarios where reinsurance income would not be presented separately on the face of the financial statements and, therefore, not be accessible for the users of the financial statements. Reinsurance is typically seen as a way for

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insurers to manage risk rather than a way of generating sales revenue for the entity.

- Investment income
  - For: Interest income is referred to as revenue in the text of AASB 9 *Financial Instruments* (e.g. AASB 9.5.4.19). Applying the guidance in AASB 18 and AASB 15, investment income (including changes in fair value) could be considered to be revenue earned from the 'main business activities' of the entity or the 'ordinary activities' of the entity. Whether or not insurance contracts are providing investment returns or related services may be relevant.
  - Against: Interest income is not referred to as revenue in the text of AASB 17. Changes in fair value are typically referred to in AASB 9 as 'gains and losses', not revenue and expenses (e.g. AASB 9.5.7.1). In any given year, entities might make an investment loss, meaning that this is not a stable measure of revenue to be included in the threshold calculation. Similarly, there can be volatility in interest rates which could lead to entities moving above or below the revenue threshold.
- Insurance/reinsurance finance income
  - For: Should follow the treatment of the financial assets 'backing' insurance liabilities – i.e. if related to the time value of money of insurance contracts issued, it should be included or excluded from the revenue calculation along with investment income/expense. AASB 18 paragraph 64 requires that insurance finance income and expense be included in the 'operating' category along with investment income, so the argument related to inclusion of investment income applies here.
  - Against: Relates to the financing effect of insurance cash flows rather than an actual cash flow related to service in accordance with AASB 17.B121, so it should be excluded from revenue calculation. As with investment income, inclusion could lead to volatility in results and moving above or below the revenue threshold.
- Other income
  - For: It is an inflow to the entity, so it should be included in the revenue calculation.
  - Against: Relates to the financing effect of insurance cash flows rather than an actual cash flow related to service in accordance with AASB 17.B121, so it should be excluded. As with investment income, inclusion could lead to volatility in results and moving above or below the revenue threshold.

- One member representing a general insurer mentioned that they had considered the definition of revenue in the context of Appendix 4E under the ASX listing rules, where they were required to disclose revenue from ordinary activities. They decided to only include insurance revenue because that is what is defined as revenue under AASB 17. They would apply the same definition when calculating revenue threshold for determining entities' reporting obligations under the Treasury Bill.
- Another member supported that insurance revenue should be the primary consideration and thought that a variation of assets or liabilities should be an income but not a revenue.

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• Another member, representing a large accounting firm, mentioned that there were similar discussions at the member's firm. Although many of their clients were Group 1 entities, they were still working it through for their other clients. AASB staff asked the member if they had considered the impact of AASB 18. The member responded that they would consider the impact of AASB 18 more broadly than insurance. • The paper is scheduled to be discussed further at the upcoming AALC meeting.	
Update on Public Sector Focus Group	**ATT2**

• The AASB 17 TRG Public Sector Focus Group met on 28 February 2024. No other meetings are currently scheduled; however, it was expected a second meeting would be convened in the second half of 2024.
• Issues that appear to require consideration include:
  ○ determining risk adjustments;
  ○ the illiquidity premium to incorporate in discount rate(s);
  ○ losses-occurring reinsurance contracts held and the accounting for loss recovery components; and
  ○ entities with multiple lines of business, some of which may not be insurance contracts.
• The Chair asked whether it would be necessary to keep the Focus Group, given that no more formal TRG meetings are scheduled after the October 2024 meeting. The presenter responded that the plan is for the Focus Group to be kept longer because of the remaining transition period.
• One member confirmed that the illiquidity premium to incorporate in the discount rate(s) and discussion around reinsurance would be worthwhile topics for future meetings.
• The Chair asked if there would be any public sector amendments in the future. The presenter responded that it was possible that there would be some changes in the future; however, so far, no fatal flaws have emerged that would cause the AASB to make any modification. It might be helpful if there was more guidance, and the purpose of the Focus Group itself was to help people work through any issues.	

Update from AALC	

There was limited discussion about AASB 17 at the last AALC meeting. The following topics were discussed:
• Updates around aspects of climate reporting
• Industry updates
  ○ Some of the general insurance and life insurance entities talked about the implementation issues they had when adopting AASB 17.
  ○ There were a number of comments in terms of the necessity of post-implementation reviews.
  ○ Broader updates around industry themes across general, life and health insurance.
• Actuaries Institute's and CA ANZ's recent submissions (not AASB 17 specific)
 	
Potential topics at the next AALC meeting:	

Topic	Agenda paper
• Industry paper: Insurance and climate reporting: definition of revenue. • Update on Post-Implementation Review of AASB 17. • Tax issues related to general insurance.	
Update on Post-Implementation Review	**ATT3**

- The IASB's focus on a post-implementation review is expected to be on whether the requirements are functioning as intended, which would include areas of unforeseen divergence in practice.
- Noting the high bar set for change to an issued IFRS Accounting Standard, and the inevitable reluctance of some entities to change practices once an accounting policy has been decided and implemented, the issues are divided into Type A issues and Type B issues.
  - Type A: Issues typically addressed each time particular transactions occur – that is, not routine transactions.
  - Type B: Issues likely to have become embedded in an insurer's processes and systems as they stem from routine transactions.

  Typically, stakeholders are more reluctant to address Type B matters, as they have been settled.
- At the March AASB 17 TRG meeting members were asked to provide feedback on what other issues they may or may not want to raise.
- Issues raised since March 2024:
  - The main unit of account to which the recognition (including derecognition) and measurement requirements are applied is a group of insurance contracts – however, different perspectives have emerged in some circumstances. For example, whether the CSM on specific lapsed and derecognised contracts is recognised immediately in profit or loss or remains to be recognised as part of the CSM of the relevant group of contracts [IFRS 17.43-46 and 74-76]. Practice seems to be coalescing around lapse/ cancellation being treated at a group of insurance contracts level. It can depend on the significance of the lapsed contract to the whole group.
  - Expected fulfilment cash flows, including changes therein are measured using current discount rates. The change in expected future fulfilment cash flows relating to future coverage adjusts CSM. However, under IFRS 17.B72(c) the amount by which the CSM is adjusted is the present value determined using the discount rate applying at inception. The result is that the change in liability is not zero and the difference ('hanging debit') is immediately recognised in profit or loss. It is not clear if this is what IASB intended.
- One member mentioned that there were some other issues mentioned in his submission to the AASB that were not included in the paper. AASB staff appreciated the feedback and acknowledged that those issues would be considered during the actual PIR.
- The Chair mentioned that the AASB could usefully reprise its Research Report No. 18, which canvassed intended accounting policy choices available in AASB 17, with similar questions that seek to identify the accounting policy choices actually made by Australian insurers in applying AASB 17.

Next steps

Topic	Agenda paper
Between the June 2024 reporting period and the next TRG meeting in October 2024, AASB TRG will send an email reminder to follow up on any views members might have on issues in the agenda paper to raise for the PIR.	
AOB	

- **AASB 110 vs. AASB 17 definition of timing of events**
  - Considering putting this issue into the post-implementation review
  - Updating the Information Note on AASB 17 published by the Institute of Actuaries
  - Reaching out to the IASB staff to help determine the intended purpose and meaning of IFRS 17.B55.
- **AASB 18**
  The AASB met on 6-7 of June and voted to make Accounting Standard AASB 18 *Presentation and Disclosure in Financial Statements*, which incorporates IFRS 18 Presentation and Disclosure in Financial Statements. AASB 18 applies to entities as follows, with earlier application permitted:
  - for-profit entities, other than superannuation entities, for annual periods beginning on or after 1 January 2027; and
  - not-for-profit (NFP) private sector entities, NFP public sector entities and superannuation entities for annual periods beginning on or after 1 January 2028.

  The AASB plans to undertake NFP/public sector outreach around AASB 18.
  - Melbourne in-person session: Wednesday, 13 October (9:30 – 11:00)
  - Sydney in-person session: Thursday, 31 October (9:30 – 11:00)
  - There might be some virtual sessions, more details will be provided on the AASB website.
- **The implications of AASB 18 and IFRS 19 on AASB 1060**
  The presentation of the income statement in AASB 18 (and IFRS 19 *Subsidiaries without Public Accountability*) is different from the current presentation under AASB 1060. The AASB would like to know whether Tier 2 entity stakeholders have a preference for the presentation of their financial statements to continue to be largely aligned with Tier 1 entity presentation (that is, applying the AASB 18 presentation format).
  The AASB plans to undertake targeted outreach on this issue.

- End Meeting
- 2024 TRG meetings:
  - 10 October

Attendance

Members	Anne Driver (Chair)
	Elaine Hultzer
	Cassandra Cope
	Kathy Allison (alternate for Brendan Counsell)
	Anna Donoghoe (alternate for Scott Hadfield)
	Stephen Connors
	David Rush
	Frank Saliba
	Rob Sharma
	Rachel Poo

	Warwick Spargo Leong Tan Ciara Wasley Michael Burns James Richardson
Apologies	David Daniels Toby Langley Sian Mueller Tom Lunn Sian Mueller Jennifer Dwyer Leann Yuen
Other presenters	Angus Thomson Katie Wingrove
Secretary	David Ji
AASB Staff	Helena Simkova Eric Lee Jia Wei