Australian Government
Australian Accounting Standards Board

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Staff paper

Project:	**Insurance Activities in the Public Sector**	**Meeting:**	AASB August 2022 (M189) NZASB August 2022 (M102)
Topic:	Indicators for determining which arrangements are in the scope of the Standard	**Agenda item:**	AASB 4.2 NZASB 8.2
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Objectives of this agenda paper

1. The objectives of this agenda paper are for the AASB and the NZASB to:

   (a) CONSIDER key stakeholder feedback received on the proposed indicators for determining whether public sector arrangements fall within the scope of AASB 17/PBE IFRS 17 *Insurance Contracts* (questions 7 to 9 of AASB ED 319/NZASB ED 2022-3 *Insurance Contracts in the Public Sector*); and

   (b) DECIDE on any changes required to be made to the indicators for the purposes of finalising the Standard.

Structure of this paper

2. This paper is structured as follows:

   (a) Indicators proposed in AASB ED 319/NZASB ED 2022-3

      (i) General comments on all indicators

      (ii) Comments on specific indicators

   (b) Ranking indicators

   (c) Appendix: Collation of comments on questions 7 to 9 of AASB ED 319/NZASB ED 2022-3 regarding the proposed indicators

3. The status of 'captive insurers' within the scope of AASB 17/PBE IFRS 17 [probably most relevant for the AASB] has been raised as an issue by a number of respondents and will be discussed at the September 2022 AASB meeting and October 2022 NZASB meeting.

4. There are questions for the Board members in respect of (a) and (b).

5. The following table provides an overview of the respondent comments, staff comments, and staff recommendations in respect of (a) and (b).

Overview

Indicator	Respondent comments	Staff comments	Staff recommendations
General comments (all indicators)	While some respondents do not support each proposed indicator, most consider it relevant to retain them all.	Indicators are not a perfect solution, but there appear to be no viable alternative solutions other than directly identifying which entities are within scope or allowing an open choice of which Standards to apply.	Retain all the proposed indicators; do not add alternative indicators; add/enhance guidance.
Ranking	Almost all respondents specifically supported some form of ranking of the indicators.	Identifying pre-requisites has some relevant precedents in Australia and New Zealand.	Rank the indicators into categories of pre-requisite, important, and secondary.
Individual indicators:			
Similarity of risks and benefits	Mixed feedback on whether the level of riskiness is a positive or negative factor.	Potential need to clarify which elements the indicator relates to.	Retain the indicator; rank as important; enhance guidance.
Identifiable coverage period	Respondents were supportive.	Further discussion on a person's inherent status in meeting eligibility criteria for participation in a scheme, versus the existence of an identifiable coverage period is needed.	Retain the indicator; rank as pre-requisite.
Enforceable arrangement	Respondents were supportive.	No amendments needed.	Retain the indicator; rank as pre-requisite.
Source and extent of funding	Respondents were supportive, but acknowledged there is no particular tipping point in respect of the extent of funding. One respondent considers it is more relevant to focus on how an amount of funding is calculated, rather than its source.	Staff do not support widening the indicator to encompass how the funding is calculated provided the indicator does not become a pre-requisite.	Retain the indicator; rank as important.
Management practices, assessing performance	Most respondents were supportive; one was not; one sought clarification.	Place more emphasis on underwriting, which is a key feature of insurance, in explaining this indicator.	Retain the indicator; rank as secondary; enhance guidance.
Assets held to pay benefits	Most respondents were supportive; one was not.	No amendments needed.	Retain the indicator; rank as secondary.

Indicators proposed in AASB ED 319/NZASB ED 2022-3

6. AASB ED 319/NZASB ED 2022-3 asked the following questions:

Q7: Public sector arrangements to which AASB 17/PBE IFRS 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 period;

(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?

Q8: Do you have suggested alternatives or additional indicators? If so, please outline those indicators and provide supporting reasoning.

General comments (all indicators)

Stakeholder feedback and staff comments

7. The following table summarises the general comments on the proposed list of indicators and staff comments.

Stakeholder feedback	Staff comment
Most respondents support using indicators to determine whether public sector arrangements fall within the scope of AASB 17/PBE IFRS 17. However, some respondents consider that it remains uncertain how governments will distinguish between insurance activities versus social benefits and compensation schemes.	Staff note that the indicators are not a perfect solution, but that there appear to be no viable alternative solutions other than (a) directly identifying which entities are within scope or (b) allowing an open choice of which Standards to apply. Both these alternative approaches were considered and rejected by the Boards.
While many respondents consider some indicators to be more relevant than others, most are in favour of retaining all the proposed indicators. One respondent (iCare) disagrees with three of the indicators – please refer to the analysis by indicator below.	While some respondents do not support each proposed indicator, most consider it relevant to retain them all.
Three respondents [iCare, HoTARAC and ACAG] mention providing more guidance on what constitutes a 'social benefit' scheme that would not be included within the scope of AASB 17/PBE IFRS 17.	Staff are not in favour of providing any detailed explanations of what constitutes a 'social benefit' scheme that would be excluded from the Standard on the basis that the Boards are yet to tackle this subject. However, staff note that it could be

Stakeholder feedback	Staff comment
	useful to draw on more of the material in IPSAS 42 *Social Benefits* in describing features of a scheme that might not meet the indicators.
One respondent [iCare] suggests additional indicators of schemes that are **not** insurance, including: • having a government guarantee; • having the ability to change benefits; and • being an insurer of last resort [that is, providing benefits the private sector is unwilling to cover]. However, two respondents [ACC and TSY NZ] hold the view that filling 'protection gaps' that would not otherwise be met by private sector insurers is a reason for including such public sector arrangements within AASB 17/PBE IFRS 17, rather than a reason for exclusion.	Staff are **not** in favour of adding: (a) an indicator regarding government guarantee on the basis that they are either implicit or explicit for all public sector entities; (b) an indicator regarding 'having the ability to change benefits' on the basis that it is already addressed [in the obverse sense] in the proposed indicator 'enforceable nature of arrangement'; or (c) a separate indicator regarding 'being an insurer of last resort' or 'filling a protection gap' on the basis that it implies that the level of riskiness is relevant to identifying an insurance risk that falls within AASB 17/PBE IFRS 17. Please also see the comments on riskiness below in respect of the discussion of 'similarity of risks covered and benefits provided'.
One respondent [TSY NZ] proposes that definition of 'insurance contract' be widened to bring public sector insurance schemes appropriately into scope, as follows: An insurance contract is a contract <u>or statutory arrangement</u> under which one party (the issuer) accepts significant insurance risk from another party <u>or group</u> (the policyholder <u>or policyholder group</u>) by agreeing to compensate policyholders<u> or other affected parties </u>if a specified uncertain future event (the insured event) adversely affects policyholders<u> or those other affected parties</u>.	Staff are not in favour of amending the definition of 'insurance contract' for the public sector on the basis that AASB 17/PBE IFRS 17.2 already requires relevant external regulation to be considered when identifying the terms of insurance contracts. However, staff consider that the wording suggested by TSY NZ could be used as the basis for additional guidance on the definition in a public sector context.
Four respondents [PwC, HoTARAC, ACAG and KPMG] suggested that the Boards should include examples to help guide entities in applying the indicators.	Staff are not in favour of including examples of applying the indicators to schemes on the basis that: (a) they would become the de facto 'standards'; and (b) in the context of AASB 17/PBE IFRS 17, the few examples included in the

Stakeholder feedback	Staff comment
	Standard itself and the examples set out in IFRS 17 *Illustrative Examples* are typically not of 'grey' areas in the requirements, but demonstrate how the Standard applies. The types of examples that would need to be presented to assist in applying the indicators would inevitably be in grey areas where judgement is required to be applied to very specific sets of circumstances. However, staff note that providing examples relating to the way in which specific indicators are applied could be useful – please refer to the discussion below on ranking indicators.

Staff recommendations – General comments (all indicators)

8. Staff recommend:

(a) retaining all the proposed indicators [also see discussion on specific indicators below] and not add alternative indicators;

(b) adding guidance on the definition of 'insurance contract' in a public sector context using the TSY NZ's suggested changes to the definition as a basis;

(c) consider enhancing the guidance on features of a scheme that might not meet the indicators, potentially drawing on material in IPSAS 42 *Social Benefits*; and

(d) not to include examples of applying the indicators to schemes in the guidance.

Question for Board members

Q1: Do Board members agree with the staff recommendations noted in paragraph 8? If not, what other alternatives would you suggest?

Specific indicator: Similarity of risks covered and benefits provided

Stakeholder feedback

9. A number of respondents [including TSY NZ and HoTARAC] have effectively identified that there could be two elements to this indicator:

- similarity or comparability between the risks and the benefits themselves;
- similarity with the level of riskiness when compared with private sector insurance contracts, because public sector entities are often filling a gap in the market relating to left with insuring the more catastrophic risks. [HoTARAC considers this element contributes to this indicator not being effective.]

10. However, there are differences of view among respondents about whether the level of riskiness is a positive or negative factor in determining whether a public sector arrangement should be within scope. Some respondents consider:

- that filling a gap left by the market or providing complementary insurance in addition to private sector insurers [accepting risks and providing compensation that otherwise would not be offered, or would otherwise be considered unaffordable] is indicative of insurance [TSY NZ].
- the 'last resort' nature of an arrangement is not indicative of insurance and, therefore, 'similarity of risks covered and benefits provided' should not be retained as an indicator because governments might target areas of private sector market failure [iCare].

Staff comments

11. Staff consider this indicator to be essential because it is intuitive that a public sector arrangement which addresses similar risks and benefits to insurance contracts in the private sector would be a good candidate to fall within the scope of AASB 17/PBE IFRS 17

12. The fact that a public sector arrangement is identified as filling a gap in the market and relates to a very high level of riskiness should not be a factor that indicates a public sector arrangement would be outside the scope of AASB 17/PBE IFRS 17.

13. Staff consider that the nature of the risk is key for identifying whether an arrangement should be in the scope of the Standard, but not the level of riskiness. Some insurance contracts address risks that are inherently more extreme than others.

14. Staff consider that the two aspects of this indicator can be more clearly explained by identifying:

    (a) similarity between the risks and the benefits themselves as being the focus;

    (b) similarity with the level of riskiness when compared with private sector insurance contracts, as not being relevant in respect of this indicator; and

    (c) explaining that some 'last resort' risks or 'protection gaps' might be peculiar to the public sector while others would be along the spectrum of riskiness.

Staff recommendations

15. Staff recommend:

    (a) retaining the proposed indicator; and

    (b) explaining that similarity between the risks and the benefits themselves is the focus, not the level of riskiness. While some 'last resort' risks or 'protection gaps' might be peculiar to the public sector in terms of their level of riskiness, this should not preclude them from being in the scope of AASB 17/PBE IFRS 17. The explanation could be briefly included in the body of the Standard with more comprehensive supporting explanation in the Basis for Conclusions.

Question for Board members

Q2: In respect of the "similarity of risks covered and benefits provided" indicator, do Board members agree with the staff recommendations noted in paragraph 15? If not, what other alternatives would you suggest?

Specific indicator: Identifiable coverage period

Stakeholder feedback

16. Respondents supported this proposed indicator.

17. One respondent [HoTARAC] seeks clarification about the reference in ED 319.BC136/NZASB ED 2022-3.BC148 to “someone’s inherent status” in explaining schemes that have eligibility criteria for participation rather than an identifiable coverage period. [For example, whether being a victim of a natural disaster is a matter of inherent status.]

18. One respondent [TSY NZ] also suggested amending the guidance in paragraph AusB16.10/ AGB16.10 of the ED on coverage period to specifically refer to statutory arrangements, as follows [mark up in underline]:

> An insurance contract <u>or applicable statutory arrangement</u> 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 <u>or statutory arrangement</u>.

Staff comments

19. Staff consider that the Standard can include further discussion on a person’s inherent status in meeting eligibility criteria for participation in a scheme, which contrasts with having an identifiable coverage period for events that might arise and for which a person might be eligible for compensation under an insurance arrangement.

20. Staff support mentioning ‘statutory arrangements’ in discussing coverage periods, but in a less specific context than suggested by TSY NZ on the basis that AASB 17/PBE IFRS 17.2 already implies that statutory arrangements can be among the terms of insurance contracts.

Staff recommendations

21. Staff recommend:

    (a) retaining the proposed indicator;

    (b) adding further discussion in the guidance in the Standard on a person’s inherent status in meeting eligibility criteria for participation in a scheme, versus the existence of an identifiable coverage period; and

    (c) not mentioning ‘statutory arrangements’ directly in discussing coverage periods, but acknowledging their role in the context of AASB 17/PBE IFRS 17.2.

Question for Board members
Q3: In respect of the “identifiable coverage period” indicator, do Board members agree with the staff recommendations noted in paragraph 21? If not, what other alternatives would you suggest?

Specific indictor: Enforceable nature of arrangement

22. All respondents supported this proposed indicator.

Staff comments

23. Staff support mentioning 'statutory arrangements' in discussing the enforceable nature of an arrangement, but in a less specific context than suggested by TSY NZ on the basis that AASB 17/PBE IFRS 17.2 already implies that statutory arrangements can be among the terms of insurance contracts.

Staff recommendations

24. Staff recommend:

    (a) retaining the proposed indicator; and

    (b) not mentioning 'statutory arrangements' directly in discussing enforceability, but acknowledging their role in the context of AASB 17/PBE IFRS 17.2.

Question for Board members
Q4: Do Board members agree with the staff recommendations noted in paragraph 24? If not, what other alternatives would you suggest?

Specific indicator: Source and extent of funding

Stakeholder feedback

25. Respondents supported this proposed indicator, including that the greater the extent of funding by the insured/beneficiary, the more likely an arrangement is to be insurance. However, there was an acknowledgement that the is no particular tipping point in respect of the extent of funding.

26. One respondent [ACC] considers that it is more relevant to focus on how an amount of funding is calculated, rather than its source being, for example, general taxation. They suggest an actuarially calculated appropriation would be indicative of insurance.

Staff comments

27. Staff do not support widening the indicator to encompass how the funding is calculated. Staff consider that actuarial-style calculations could be associated with a variety of funding arrangements beyond insurance.

28. Staff note that, while this indicator would imply that an arrangement with no funding sourced from insureds/beneficiaries is not an insurance arrangement, unless it was identified as a pre-requisite, the arrangement could still be within the scope of AASB 17/PBE IFRS 17 based on other indicators – see discussion on Q9 below.

Staff recommendation

29. Staff recommend retaining the proposed indicator without any substantive amendment.

Question for Board members
Q5: In respect of the "source and extent of funding" indicator, do Board members agree with the staff recommendation to retain the proposed indicator without any substantive amendment?

Specific indicator: Management practices and assessing financial performance

Stakeholder feedback

30. Most respondents agreed with this indicator.

31. One respondent [iCare] disagrees with the indicator because most schemes operated by government would be expected to possess this attribute to meet relevant governance standards.

32. One respondent [KPMG] considers that merely conducting underwriting and risk management, managing the entity's capital and ensuring fair, and prudent claims management would not, in itself, meet the indicator and seeks clarification of how conducting the specified activities are expected to satisfy whether an entity meets the indicator.

Staff comments

33. Staff acknowledge that it would be expected all government schemes are well managed and treat beneficiaries fairly and in a general sense is not necessarily indicative of insurance contracts. Staff consider that it would be helpful to emphasise the particular key features of management most closely associated with insurance activities, such as underwriting, in explaining this indicator.

Staff recommendations

34. Staff recommend:

    (a) retaining the proposed indicator; and

    (b) placing more emphasis on underwriting, which is a key feature of insurance, in explaining this indicator.

Question for Board members
Q6: In respect of the "management practices and assessing financial performance" indicator, do Board members agree with the staff recommendations noted in paragraph 34? If not, what other alternatives would you suggest?

Specific indicator: Assets held to pay benefits

Stakeholder feedback

35. Most respondents agreed with this indicator.

36. One respondent [iCare] disagrees with retaining 'assets held to pay benefits' as an indicator because this is a standard arrangement for establishment of most public sector schemes.

Staff comments and recommendations

37. Staff recommend retaining this indicator without any substantive amendment considering there is already sufficient acknowledgement that other [non-insurance] schemes would often also have assets held to pay benefits.

Question for Board members
Q7: In respect of the "assets held to pay benefits" indicator, do Board members agree with the staff recommendation to retain the proposed indicator without any substantive amendment?

Ranking the indicators

38. AASB ED 319/NZASB ED 2022-3 asked the following questions:

Q9: 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?

39. In developing ED 319/ED 2022-3, the Boards:

- concluded that they would not propose assigning a relative significance to each of the indicators on the basis that this is generally inconsistent with principle-based standard setting and with the notion of making a collective assessment and applying judgement based on the relevant circumstances [ED 319.BC210/ED 2022-3.BC222]; and
- decided to include a specific question in the ED on whether the indicators should be ranked in some manner and, if so, how they should be ranked and the reasons for that ranking. [ED 319.BC211/ED 2022-3.BC223]

Stakeholder feedback

40. Two respondents supported a collective assessment and no ranking of the indicators [EQC and ICWA], although one [EQC] noted that it would fall with the scope of AASB 17/PBE IFRS 17 in any case.

41. Nine respondents supported some form of ranking of the indicators, as summarised in the following table. Staff note there was also support for ranking among stakeholders with whom we conducted discussions but who chose not to lodge a comment letter.

	(a)	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**
Support this indicator being:	***Similarity of risks and benefits***	***Identifiable coverage period***	***Enforceable arrangement***	***Source and extent of funding***	***Mgt practices, assessing performance***	***Assets held to pay benefits***
Pre-requisite		PwC, TSY NZ, iCare, HoTARAC, ACC, KPMG	PwC, TSY NZ, iCare, HoTARAC, ACAG, ACC, KPMG	HoTARAC[1]		
Primary [or high-rank] indicator	PwC, ACAG, ACC	ACAG		PwC, HoTARAC[2], TSY NZ[3], ACAG, ACC	TSY NZ[4], ACC	

1 or primary

2 or pre-requisite

3 rebuttable

4 rebuttable

	(a)	(b)	(c)	(d)	(e)	(f)
Support this indicator being:	***Similarity of risks and benefits***	***Identifiable coverage period***	***Enforceable arrangement***	***Source and extent of funding***	***Mgt practices, assessing performance***	***Assets held to pay benefits***
Secondary rank	TSY NZ, KPMG			iCare, KPMG	PwC, HoTARAC, ACAG, KPMG	PwC, TSY NZ, ACAG, ACC, KPMG
Low rank [or delete]	iCare[5], HoTARAC				iCare	iCare, HoTARAC

42. While the summary is an imperfect guide to the nuances in some of the submissions, it suggests the following broad conclusions:

- majority support for *(b) Identifiable coverage period* being a pre-requisite, rather than an indicator
- majority support for *(c) Enforceable nature of arrangement* being a pre-requisite, rather than an indicator
- the next most highly-ranked indicator is *(d) Source and extent of funding*
- feedback on *(a) Similarity of risks covered and benefits provided* was mixed
- there was only moderate support for *(e) Management practices and assessing financial performance* remaining an indicator
- the was only moderate support for *(f) Assets held to pay benefits* remaining an indicator.

43. The main reasons provided by respondents in favour of ranking, and identifying pre-requisites in particular, were that:

- an *Identifiable coverage period* is needed to enable AASB 17/PBE IFRS 17 to be implemented, both in principle and in practical terms;
- the *Enforceable nature of an arrangement* is essential to there being a contract, consistent with other Standards applied in the public sector that relate to contracts [on revenue recognition and leases];
- an *Identifiable coverage period* and the *Enforceable nature of an arrangement* are key distinguishing factors from government schemes that are subject only to eligibility criteria;
- identifying some pre-requisites would tend to result in a greater level of consistency in application and, therefore, in more consistent outcomes; and
- identifying pre-requisites would make the assessment easier compared with the potential burden of making a collective assessment of six indicators.

44. Among those who support identifying pre-requisites, there was explicit support from two respondents [ACC and KPMG] for assessing the other [remaining] indicators collectively.

5 but using insurer of last resort as an exclusion

45. One respondent [TSY NZ] specifically suggested guidance along the following lines:

- some of the 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 [pre-requisite];
- 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 [important indicators]; and
- 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, their absence does not preclude insurance accounting being applied [secondary indicators].

Staff comments

46. Staff consider that an *Identifiable coverage period* and the *Enforceable nature of an arrangement* are the most significant indicators for the reasons noted immediately above.

47. Staff note that an *Identifiable coverage period* is needed to apply AASB 17/PBE IFRS 17 and, therefore, recommend that it be a pre-requisite. Accordingly:

(a) if a **coverage period can be identified**, the relevant arrangements would be eligible to apply AASB 17/PBE IFRS 17 and it would be a strong indication that the Standard should apply – however, the other indicators may not support that conclusion; and

(b) if a **coverage period cannot be identified**, the relevant arrangements would be ineligible to apply AASB 17/PBE IFRS 17 regardless of the [other] indicators.

48. Staff consider that the *Enforceable nature of an arrangement* is needed to apply AASB 17/PBE IFRS 17 and, therefore, recommend that it be a pre-requisite. Accordingly:

(a) if **enforceability can be established**, the relevant arrangements would be eligible to apply AASB 17/PBE IFRS 17 and it would be a strong indication that the Standard should apply – however, the other indicators may not support that conclusion; and

(b) if **enforceability cannot be established**, the relevant arrangements would be ineligible to apply AASB 17/PBE IFRS 17 regardless of the [other] indicators.

49. Staff consider that identifying pre-requisites has some precedent in both the AASB's and NZASB's Standards.

(a) The Australian implementation guidance for not-for-profit entities in Appendix F of AASB 15 *Revenue from Contracts with Customers*, essentially sets out that establishing enforceability and identifying whether a performance obligation exists are pre-requisites for applying AASB 15. We consider the AASB 15 discussion on identifying performance obligations by reference to enforceable agreements that involve sufficiently specific promises between parties could be a useful model for providing examples on identifying an enforceable [insurance] arrangement and identifying coverage periods in the context of AASB 17.

(b) Within PBE IPSAS 23 *Revenue from Non-exchange Transactions* entities must work through the requirements in paragraphs 8 – 11 to determine whether the substance of a transaction is that of a non-exchange or an exchange transaction. Additionally, in PBE IPSAS 11 *Construction Contracts,* in the absence of a documented contract, entities need to determine whether there is a binding arrangement in order to apply the Standard. This could also provide a useful model for providing examples on identifying an enforceable [insurance] arrangement and identifying coverage periods in the context of PBE IFRS 17.

50. Staff consider that *Source and extent of funding* and *Similarity of risks covered and benefits provided* should be identified as important indicators that would usually have relevance on a sliding scale: Accordingly:

    (a) the greater the extent of funding of a scheme that is sourced from the person/entity who stand to benefit from coverage, the stronger would be the indication that AASB 17/PBE IFRS 17 should apply; and

    (b) the greater the similarity between risks and benefits provided under a scheme and those provided under insurance contracts issued by private sector insurers, the stronger would be the indication that AASB 17/PBE IFRS 17 should apply.

51. Staff consider that *Management practices and assessing financial performance* and *Assets held to pay benefits* should be identified as secondary indicators that may help determine whether AASB 17/PBE IFRS 17 should apply when the other indicators are not definitive.

Staff recommendations

52. Staff recommend:

    (a) making both of the following two features **pre-requisites** for applying AASB 17/PBE IFRS 17:

    - Identifiable coverage period
    - Enforceable nature of an arrangement

    (b) identifying the following as **important indicators** that would usually have relevance on a sliding scale:

    - Source and extent of funding
    - Similarity of risks covered and benefits provided

    (c) identifying the following as **secondary indicators** that may help determine whether AASB 17/PBE IFRS 17 applies when the other indicators are not definitive:

    - Management practices and assessing financial performance
    - Assets held to pay benefits

    (d) including brief commentary in guidance explaining the manner in which ranking is expected to function, along the lines suggested by a number of respondents and explaining the rationale for the Boards' decisions on ranking in the Basis for Conclusions

    (e) including examples that help identify when an arrangement is enforceable and when an arrangement has an identifiable coverage period, probably in an Appendix.

Question for Board members

Q8: In respect of ranking indicators and identifying features of an arrangement that should be considered pre-requisites, do Board members agree with the staff recommendations noted in paragraph 52? If not, what other alternatives would you suggest?

Appendix: Collation of comments on questions 7 to 9 in AASB ED 319 / NZASB ED 2022-3

This Appendix summarises the key comments received from respondents on questions 7 to 9 in AASB ED 319/NZASB ED 2022-3 regarding the proposed indicators for determining which public sector arrangements are in the scope of AASB 17/PBE IFRS 17

Indicators – scope of standard

Q7: 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?

	Q7 – general comments
PwC	The indicators 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. We have not uncovered better alternative indicators.
TSY NZ	Further work is needed on the definition, on the indicators, and the connection between them. The definition needs to be widened to bring public sector insurance schemes appropriately into scope. Our proposed definition is: An insurance contract is a contract *<u>or statutory arrangement</u>* under which one party (the issuer) accepts significant insurance risk from another party *<u>or group</u>* (the policyholder *<u>or policyholder group</u>*) by agreeing to compensate policyholder*<u>s or other affected parties</u>* if a specified uncertain future event (the insured event) adversely affects policyholder*<u>s or those other affected parties</u>*.

<table>
<tr><th></th><th>Q7 – general comments</th></tr>
<tr><td></td><td>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 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) [similar risks and benefits] and (d) [source and extent of funding] could be better connected to the definition.</td></tr>
<tr><td>iCare</td><td>Unambiguous guidance on the scope of AASB 17 is critical in ensuring uniform application. 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.</td></tr>
<tr><td>HoTARAC</td><td>Members agree that all of the above factors are relevant when assessing whether an insurance contract exists in the public sector context. However:
• some of the proposed indicators should instead be taken as the prerequisite/defining characteristics
• some indicators are more relevant than others, and this should be clarified, rather than left to preparers’ judgment
• if no relative significance can be assigned, the proposed indicators would be better included as guidance that does not form part of the standard
• there is insufficient clarity around social benefits and compensation schemes
• there is insufficient guidance on how to make a balanced assessment using the indicators – adding illustrative examples of applying the proposed indicators for a collective assessment would be useful.

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. 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”.</td></tr>
</table>

	Q7 – general comments
	• 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. **Examples** [*Note*] Add illustrative examples of collective assessments using the proposed indicators, with different outcomes, to allow for comparison. HoTARAC can provide real-life examples to assist with illustrative examples if needed. 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. **Social benefits** [*Note*] Clarify 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 paragraph BC200. However, HoTARAC also notes some paragraphs (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 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 examples scoped out in the BC paragraphs above. **Rebuttable presumptions about schemes** [*Note*] Including a rebuttable assumption that certain schemes are, or are not, insurance contracts, could reduce unnecessary work in scoping assessments. *Note: these three comments were in HoTARAC's response to Q11 – they have been located here due to their association with 'Scope'.*
EQC	Agree with the proposed indicators, noting that it is clear that EQC is captured by the standard.
ACAG	Agree with the proposed indicators. 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. It is not clear whether social benefit schemes should be scoped out of AASB 17. Paragraphs AusB16.2, BC199 and BC200 have not specifically excluded social benefit schemes from the scope and require an assessment of the social benefit arrangement against the proposed

	Q7 – general comments
	indicators. There are also a number of paragraphs which identify that social benefit schemes are different from insurance contracts (paragraphs AusB16.2, BC136, BC146) and that these schemes are not intended to be included (paragraph BC166).
ACC	Agree broadly with the proposed indicators.
ICWA	Agree with all the proposed scope indicators.
KPMG	Agree with the indicators that have been identified.

	Q7(a) – similarity of risks covered and benefits provided
PwC	Ranked 3rd – see the response to Q9.
TSY NZ	This indicator seems to have two elements: • Similarity or comparability between the risks and the benefits • Similarity with comparable private sector insurance contracts. 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. Agree with this indicator – but, include guidance that public sector entities often fill a gap left by the market or provide complementary insurance in addition to private sector insurers, accepting risks and providing compensation that otherwise would not be offered, or would otherwise be considered unaffordable. The complementarity of such arrangements indicates public sector entity's arrangements are insurance contracts.
iCare	Disagrees with this indicator. Private insurers cover similar risks and benefits in other jurisdictions not bound by the legislative framework of the NSW.

	Q7(a) – similarity of risks covered and benefits provided
	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 [provided in the submission].
HoTARAC	Agree with this indicator – but, practical applicability is low because public sector schemes often target areas private sector entities will not insure, including the same services, but for high-risk cohorts. Recommend clarifying this is not a primary indicator for the assessment and removing "have similar characteristics" in paragraph BC127 because it is a very broad term and could cause confusion, or clarify what it means in the context of the proposed indicator.
ACC	Agree with the feedback from TSY NZ and their recommendations on 'similarity of risks covered and compensation provided' included in the annex to their feedback – see above.
KPMG	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; i.e., some arrangements that are clearly insurance contracts may be issued exclusively in the private sector. We recommend including such an exception in revised wording.

	Q7(b) – identifiable coverage period
PwC	Ranked 2nd – should be a pre-requisite – see response to Q9.
TSY NZ	Agree with this indicator – extend to "applicable statutory arrangement" having an identifiable coverage period
iCare	Agrees with this indicator. 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. Agrees that an annual levy for funding purposes is typically for practicality and not for the purposes of coverage (BC138).

	Q7(b) – identifiable coverage period
HoTARAC	Agrees with this indicator – should be a pre-requisite – see response to Q9. Paragraph AusB16.12 scopes out open-ended arrangements to provide benefits based on eligibility criteria. This is slightly different from paragraph BC136 which specifies that eligibility criteria "relate to someone's inherent status". HoTARAC recommends clarifying the apparent inconsistency, i.e., whether paragraph 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.
ACAG	The guidance should explain that the party who pays the levy does not have to be the policyholder. Because of the current uncertainty, there are different views in assessing coverage period because there is no contract or arrangement between the payment of the premium / levy and the risks being covered.
KPMG	Agree – however, see response to Q9.

	Q7(c) – enforceable nature of arrangement
PwC	Ranked 1st – should be a pre-requisite – see response to Q9.
TSY NZ	Agree with this indicator – extend to "applicable statutory arrangement" being enforceable – extend to compensating an "other affected party" [not just an insured]
iCare	Agrees with this indicator – should be a pre-requisite. The standard requires 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. 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.

	Q7(c) – enforceable nature of arrangement
HoTARAC	Agrees with this indicator – should be a pre-requisite. This 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. All the BC paragraphs under the heading "Enforceable nature of arrangement" would still be valid in their current form, as guidance for public sector entities making judgments on the enforceability of an arrangement.
ACAG	The guidance should explain that the party who pays the levy does not have to be the policyholder. 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.
KPMG	Agree – however, see response to Q9.

	Q7(d) – source and extent of funding
PwC	Ranked 4th – see response to Q9.
TSY NZ	Agree with this indicator – add that it is not necessary for the policyholder(s) paying premiums or statutory levies to be the party making claims for compensation.
iCare	Agrees with this indicator. 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. Disagree with BC169 if it refers to arrangements such as the NSW Governments Self Insurance entity. The funding from consolidated revenue is to pay for the claims of the previous year that exceeded our initial estimate of claims. If the initial estimate was higher, the funds are returned to consolidated revenue as this is an administrative mechanism to manage claims as opposed to an insurance arrangement.

	Q7(d) – source and extent of funding
HoTARAC	Agrees with this indicator – should be a pre-requisite or primary indicator: • Because it immediately rules out a range of social benefits such as aged pensions, universal healthcare activities and disability support [Paragraph BC166] • to achieve consistency with the GFS manual (please refer to Q12 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.
ACC	The guidance differentiates 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 publicly available reports that set out the process for calculating the appropriation released annually. 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). ACC agrees with TSY NZ’s suggested definition of an insurance contract – see TSY NZ response to Q7 – general comments.
KPMG	Agree – 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 in the private sector. However, we envisage inconsistency in how this indicator is applied when funding is provided by both the policyholder and other sources. There is no clear indication of 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.

	Q7(e) – management practices and assessing financial performance
PwC	Ranked 5th – may lead to unintended consequences – see response to Q9.
TSY NZ	Agree with this indicator – add that it is not necessary for the policyholder(s) paying premiums or statutory levies to be the party making claims for compensation.
iCare	Disagrees with this indicator. A scheme does not have to be insurance related to have appropriate management practices and assessment of financial performance. For example, fair and prudent claims management should occur under an insurance contract or a compensation benefit fund.
HoTARAC	Agree with this as a secondary indicator –because it is also a feature of arrangements other than insurance contracts, as stated in paragraph BC178(c). 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 features of compensation arrangements that mean these are not insurance contracts.
KPMG	Agree – however, 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. Under paragraph AusB16.22, 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 this requirement. The boards should clarify 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.

	Q7(f) – assets held to pay benefits
PwC	Ranked 6th [last] – may lead to unintended consequences – see response to Q9.

	Q7(f) – assets held to pay benefits
TSY NZ	Agree with this indicator, but only to enhance the judgement from applying the other indicators.
iCare	Disagrees with this indicator. A fund that is restricted to paying benefits is a standard arrangement for establishment of any public sector scheme.
HoTARAC	Could be a secondary indicator, or completely removed from the list of indicators. Assets held for a specific purpose is a common feature of many public sector schemes, including but not limited to insurance arrangements. This feature would often arise because premiums or levies collected specifically for the arrangement, which is demonstrated by the other proposed indicator of "source and extent of funding" – hence "assets held to pay benefits" seems redundant, 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. While the indicator may help scope out some non-insurance arrangements, the same outcome could be achieved if the public sector amendments clarify the importance of certain indicators over others.
KPMG	Agree. In paragraphs BC198-BC200, we note the boards considered but rejected the idea of identifying specific entities or activities that should be scoped out of AASB 17. However, AASB 17.B26 and B27 provide examples of contracts which are insurance contracts and those which are not. We 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. AASB 17.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.

Alternative indicators

Q8. Do 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.

	Q8 – alternative indicators
PwC	Does not disagree with identifying arrangements to which AASB 17 should apply through a set of indicators. The indicators 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. We have not uncovered better alternative indicators.
TSY NZ	See response to Q7.
iCare	Highlights the significance of the legislative construct of public schemes in applying the appropriate accounting standard and consider there are fundamental differences in the governance frameworks and enabling legislation across the various jurisdictions in Australia. *Suggested alternative/additional indicators of schemes that are not insurance.* • *Guarantee provided by government*: removes the need for a risk margin to account for the volatility and uncertainty of claims payments, hence there is no significant insurance risk. • *Ability to change benefits for beneficiaries*: makes a scheme more akin to a social benefit scheme • *Insurer of last resort* – benefits provided by a government that the private sector is unwilling to cover in the same jurisdiction should not be accounted for as insurance.
EQC	Agree with the proposed indicators.

Ranking indicators

Q9: The proposed paragraph AusB16.2/AG16.2 requires that the indicators outlined in paragraphs AusB16.3 to AusB16.25/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 AASB 17/ PBE IFRS 17 and, if so, which ones, and why?

	Q9 – ranking indicators
PwC	Some indicators are more important than others – an enforceable arrangement and identifiable coverage are necessary to make application operational. Notes that the indicators of *management practices and assessing financial performance*; and *assets held to pay benefits* may lead to unintended outcomes such as an underfunded entity or one poorly managed not then applying AASB 17. If we were to rank the indicators, it would be in the following descending order of importance: (1) enforceable nature – ***pre-requisite*** (2) identifiable coverage – ***pre-requisite*** (3) similarity of risks and benefits (4) source and extent of funding (5) management practices (6) assets held.

	Q9 – ranking indicators
TSY NZ	The indicators should be clearly set out as being of three distinct types: 1. pre-requisites: (b) [identifiable coverage period] and (c) [enforceable nature of arrangement] 2. indicators that require greater judgement or assessment, with a rebuttable presumption that if the judgement is positive insurance accounting should be applied: (d) [(source and extent of funding] and (e) [management practices and assessing financial performance] 3. useful indicators to enhance the judgement from the first two sets of indicators: (a) [similarity of risks and benefits] and (f) [assets held to pay benefits].
iCare	Ranked in order of relevance: (1) enforceable nature – ***pre-requisite*** (2) identifiable coverage – ***pre-requisite*** – while some social benefit schemes issue annual levy notices, this can be for administrative purposes only and is not a proxy for the coverage period. (3) insurer of last resort – ***exclusion*** – benefits provided by a government that the private sector is unwilling to cover in the same jurisdiction should not be accounted for as insurance (4) ability to retrospectively change benefits – ***exclusion*** – negates the need for a risk margin and provides an additional lever to manage liabilities that should not be accounted for as insurance (5) funding source – if funded by the beneficiary, the arrangement is more likely to be insurance – the arrangement is unlikely to be insurance where funding is through government appropriations (both direct and look through)

	Q9 – ranking indicators
HoTARAC	(a) similarity of risks and benefits – ***practical applicability is low*** (b) identifiable coverage – ***pre-requisite*** (c) enforceable nature – ***pre-requisite*** (d) source and extent of funding – ***pre-requisite or primary indicator*** (e) management practices and assessing financial performance – ***secondary indicator*** (f) assets held – ***secondary indicator, or delete***. 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.
EQC	Agree with the indicators being considered collectively rather than using a ranking approach (noting that EQC is not affected by this decision).

	Q9 – ranking indicators
ACAG	While understanding the AASB's rationale for not weighting, 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. While more prescriptive guidance may not be consistent with a principle-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. If the AASB does not rate the individual indicators, some ACAG Offices suggest specifying which indicators are of higher importance by splitting these into primary and secondary indicators. ACAG believes the following indicators would be primary indicators (for which more weight is applied): • similarity of risks covered and benefits provided • identifiable coverage period • enforceable nature of the arrangement (and a pre-requisite – see below) • source and extent of funding. ACAG believes the following indicators would be secondary indicators [because they would be present in many other public sector arrangements, such as social benefit and other arrangements]: • management practices and assessing financial performance • assets held to pay benefits. If a public sector arrangement does not create enforceable rights and obligations then this would not align with AASB 17.2, but in theory could still result in the insurance arrangement being assessed as being within the scope of AASB 17 based on other indicators. If arrangements that were not enforceable were included in the scope of AASB 17 then this would be contrary to other Standards such as AASB 15 *Revenue for Contracts with Customers*, AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities*.

	Q9 – ranking indicators
ACC	Some indicators should be given more weight than others: (b) identifiable coverage – ***pre-requisite*** (c) enforceable nature – ***pre-requisite*** (f) assets held – **lower weight** – 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 an issue. The remaining indicators are of equal importance with flexibility in how many of these indicators would need to be met: (a) similarity of risks and benefits (d) source and extent of funding (e) management practices and assessing financial performance.
ICWA	Agree with not assigning a relative significance to the indicators or having any other form of ranking approach to indicators.
KPMG	An insurance contract cannot exist unless the arrangement is enforceable and the coverage period is known. 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: • 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 these indicators are met, the other indicators should be considered collectively to determine whether an insurance contract exists – we do not think that one is more significant than the other. We see the application of indicators is similar to those in other accounting standards, such as the principal vs agent indicators in AASB 15.