

# **Explanatory Statement**

## **Accounting Standard AASB 2020-5** ***Amendments to Australian Accounting Standards –*** ***Insurance Contracts***

**July 2020**



**Australian Government**

**Australian Accounting  
Standards Board**

# EXPLANATORY STATEMENT

## Standards Amended by AASB 2020-5

This Standard makes amendments to Australian Accounting Standards AASB 4 *Insurance Contracts* (August 2015) and AASB 17 *Insurance Contracts* (July 2017).

These amendments arise from the issuance of International Financial Reporting Standards *Amendments to IFRS 17 and Extension of the Temporary Exemption from Applying IFRS 9* (Amendments to IFRS 4) by the International Accounting Standards Board (IASB) in June 2020.

## Marked-up Text

This Standard incorporates marked-up text to clearly identify some or all of the amendments made to the Standards. Those amendments are incorporated using clean text into the compilations of those Standards when they are prepared, based on the legal commencement date of the amendments.

## Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

## Main Features of AASB 2020-5

### Main Requirements

This Standard amends AASB 17 (which incorporates the requirements of IFRS 17 *Insurance Contracts*):

- (a) reduce the costs of applying AASB 17 by simplifying some of its requirements;
- (b) make an entity's financial performance relating to insurance contracts easier to explain; and
- (c) ease the transition to AASB 17 by deferring its effective date to annual periods beginning on or after 1 January 2023 instead of 1 January 2021 and by providing additional optional relief to reduce the complexity in applying AASB 17 for the first time.

The amendments to AASB 4 permit eligible insurers to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until they are required to apply AASB 9 *Financial Instruments* alongside AASB 17.

Editorial corrections made to IFRS 17 by the IASB are also incorporated into the amendments in this Standard.

### Application Date

AASB 2020-5 applies to annual reporting periods beginning on or after 1 January 2021, which was the original effective date of AASB 17. Earlier application is permitted.

### References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

## Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 292 *Amendments to AASB 17* in July 2019 for comment by 30 August 2019. ED 292 incorporated IASB Exposure Draft ED/2019/4 *Amendments to IFRS 17*. No formal submissions were received by the AASB in respect of the proposals in ED 292, however feedback was obtained via the AASB's Insurance Transition Resource Group (AASB TRG), which was set up to facilitate discussion of implementation issues for Australian insurers. The AASB made a submission to the IASB on ED/2019/4. Both the AASB and the AASB TRG considered the proposals would improve IFRS 17 without detriment to users and without adversely affecting implementation projects underway. Importantly, the proposals would resolve some of the implementation difficulties in the IFRS 17 requirements. However, the AASB submission did raise some concerns to the IASB. Five Australian stakeholders also made submissions directly to the IASB on ED/2019/4, generally supporting the proposals. Four out of these five stakeholders were members of the AASB TRG and in support of the AASB's submission to the IASB.

The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments after making many changes to the amendments proposed. Although some concerns might not have been addressed in the way

preferred by the AASB or the AASB TRG, the amendments are expected to improve the application of AASB 17 by insurers. The IASB set an effective date for the amendments of annual periods beginning on or after 1 January 2021, which was the original effective date of IFRS 17. Earlier application is permitted. The AASB considered and adopted the amendments made by the IASB to IFRS 4 and IFRS 17 in finalising AASB 2020-5 and the amendments to AASB 4 and AASB 17.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2020-5 as the amendments made do not have a substantial direct or indirect impact on business or competition.

## Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the  
*Human Rights (Parliamentary Scrutiny) Act 2011*

### **Accounting Standard AASB 2020-5 *Amendments to Australian Accounting Standards – Insurance Contracts***

#### **Overview of the Accounting Standard**

This Standard makes amendments to Australian Accounting Standards AASB 4 *Insurance Contracts* (August 2015) and AASB 17 *Insurance Contracts* (July 2017).

This Standard amends AASB 17 to:

- (a) reduce the costs of applying AASB 17 by simplifying some of its requirements;
- (b) make an entity's financial performance relating to insurance contracts easier to explain; and
- (c) ease the transition to AASB 17 by deferring its effective date to annual periods beginning on or after 1 January 2023 instead of 1 January 2021 and by providing additional optional relief to reduce the complexity in applying AASB 17 for the first time.

The amendments to AASB 4 permit eligible insurers to continue to apply AASB 139 *Financial Instruments: Recognition and Measurement* until they are required to apply AASB 9 *Financial Instruments* alongside AASB 17.

Editorial corrections made to IFRS 17 *Insurance Contracts* by the IASB are also incorporated into the amendments in this Standard.

#### **Human Rights Implications**

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

#### **Conclusion**

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.