

Explanatory Statement

Accounting Standard AASB 2022-8
Amendments to Australian Accounting Standards –
Insurance Contracts: Consequential Amendments
and

Accounting Standard AASB 2022-9
Amendments to Australian Accounting Standards –
Insurance Contracts in the Public Sector

December 2022



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for issuing AASB 2022-8 and AASB 2022-9

AASB 17 *Insurance Contracts* (July 2017), which applies to annual periods beginning on or after 1 January 2023, supersedes AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 1038 *Life Insurance Contracts* and Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* in respect of private sector entities and for-profit public sector entities.

The AASB issued AASB 2022-8 to defer the mandatory application date of AASB 17 for public sector entities to annual periods beginning on or after 1 July 2026.

The AASB issued AASB 2022-9 to make public-sector-specific modifications to AASB 17 to provide criteria for determining arrangements that fall within the scope of AASB 17 and to cater for circumstances that typically arise for public sector entities that will apply the requirements in AASB 17.

Main Features of AASB 2022-8

AASB 2022-8 amends AASB 17 to defer the mandatory application date of AASB 17 for public sector entities to annual periods beginning on or after 1 July 2026. It makes temporary consequential amendments to all Accounting Standards that refer to AASB 17 so that public sector entities (both for-profit and not-for-profit) are permitted to continue to apply AASB 4 and AASB 1023 to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

AASB 2022-8 also repeals AASB 1038 and supersedes Interpretation 1047 for annual periods beginning on or after 1 January 2023, on the basis that AASB 17 applies to those periods in respect of private sector entities and the pronouncements are not relevant to public sector entities.

Application Date

This Standard applies to annual periods beginning on or after 1 January 2023. Earlier application is permitted.

Marked-up Text

This Standard incorporates marked-up text to clearly identify the amendments to Accounting Standards. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Main Features of AASB 2022-9

AASB 2022-9 amends AASB 17 to include modifications that apply to public sector entities. Those modifications relate to providing public sector entities with:

- (a) pre-requisites, indicators and other considerations that need to be judged to identify arrangements that fall within the scope of AASB 17 in a public sector context;
- (b) an exemption from sub-grouping onerous versus non-onerous contracts at initial recognition;
- (c) an exemption from sub-grouping contracts issued no more than a year apart;
- (d) an amendment to the initial recognition requirements so that they do not depend on when contracts become onerous;
- (e) guidance on coverage periods in a public sector context, which has consequences for determining the cash flows used to measure insurance liabilities and the pattern of revenue recognition;
- (f) an accounting policy choice to measure liabilities for remaining coverage applying the premium allocation approach; and
- (g) a transition requirement grandfathering the existing classification of arrangements constituting a liability for settlement of claims incurred before the liability was acquired in a transfer as either a liability for incurred claims within the scope of AASB 17 or a provision within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

AASB 2022-9 also amends AASB 1050 *Administered Items* (December 2007) to provide an accounting policy choice for government departments to apply either AASB 17 or AASB 137 in determining the information to be disclosed about administered captive insurer activities.

Because AASB 17 applies to all entities for annual periods beginning on or after 1 July 2026, this Standard also:

- (a) repeals AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts*; and
- (b) reverses the temporary consequential amendments set out in AASB 2022-8 that amended various Standards to permit public sector entities to continue applying AASB 4 and AASB 1023 to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

Application Date

This Standard applies to annual periods beginning on or after 1 July 2026. Earlier application is permitted.

Marked-up Text

This Standard incorporates marked-up text to clearly identify some of the amendments to Accounting Standards. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Consultation Prior to Issuing AASB 2022-8 and AASB 2022-9

International Financial Reporting Standard IFRS 17 *Insurance Contracts*, which is incorporated into both AASB 17 and the New Zealand Standard PBE IFRS 17 *Insurance Contracts* issued by the New Zealand Accounting Standards Board (NZASB), was developed by the International Accounting Standards Board largely for the for-profit private sector and to a relevant extent for a mutual entity context. IFRS 17 has not been designed to cater for the public sector context.

In November 2017, the AASB issued for comment a Discussion Paper *Australian-specific Insurance Issues – Regulatory Disclosures and Public Sector Entities* to consider the need for modifications in AASB 17 to suit the public sector context in Australia. The comment period for the Discussion Paper closed on 28 February 2018. Six written submissions (and one supplementary submission) were received.

The NZASB issued an Exposure Draft ED 2018-7 *PBE IFRS 17 Insurance Contracts* in December 2018 to propose amending the scope of NZ PBE IFRS 17 to capture schemes that are eligible to apply the insurance approach under International Public Sector Accounting Standard IPSAS 42 *Social Benefits*. These are schemes intended to be fully funded from contributions and levies and for which there is evidence the entity manages the scheme in the same way as an issuer of insurance contracts, including assessing the financial performance and financial position of the arrangement on a regular basis. These aspects were considered by the AASB in developing the criteria for identifying which public sector arrangements are within the scope of AASB 17.

Upon consideration of the feedback received on those consultation documents, both the AASB and the NZASB decided that further work was needed before finalising the modifications to be made to AASB 17/PBE IFRS 17 for application by public sector entities. In 2020, the AASB and the NZASB decided to work jointly to develop appropriate modifications to their insurance Standards.

In 2021, the Public Sector Focus Group of the AASB 17 Transition Resource Group was established as a Project Advisory Panel for the joint project. The Public Sector Focus Group consisted of 21 members representing public sector financial statement preparers, auditors and actuaries in both jurisdictions. The AASB and the NZASB held two formal meetings with the Focus Group, in November 2021 and October 2022, and received informal feedback from individual Focus Group members on specific topics throughout the joint project.

In March 2022, the AASB issued:

- (a) Exposure Draft ED 319 *Insurance Contracts in the Public Sector*; and
- (b) Fatal-Flaw Review draft version of AASB 2022-8.

The NZASB issued Exposure Draft ED 2022-3 *Insurance Contracts in the Public Sector* simultaneously with ED 319. ED 2022-3 included the same proposals as ED 319 with one exception in respect of risk adjustments. Comments on ED 319 and ED 2022-3 were due by 8 June 2022. Across the two jurisdictions, eleven comment letters were received, of which six were from Australian stakeholders.

In addition to consultations with the Public Sector Focus Group, the AASB and the NZASB jointly held a public virtual roundtable discussion on 2 May 2022 to obtain feedback on ED 319 and ED 2022-3 from Australian and New Zealand stakeholders.

Feedback received on ED 319/ED 2022-3 was supportive of the AASB's proposals. However, most respondents suggested that the six proposed criteria for identifying which public sector arrangements are within the scope of AASB 17 should be categorised into pre-requisites, important indicators and other considerations. Consequently, in October 2022, the AASB issued for comment a Fatal-Flaw Review draft version of AASB 2022-9 that categorised the proposed criteria based on the feedback received. Comments were due by 11 November 2022. Three supportive comment letters were received on that Fatal-Flaw Review draft. Accordingly, the AASB concluded that it would proceed with the issuance of AASB 2022-9 to modify AASB 17 for application by public sector entities. The NZASB decided to finalise its amendments to NZ PBE IFRS 17 on the same basis.

Comments on the Fatal-Flaw Review draft version of AASB 2022-8 were also due by 8 June 2022. No formal submissions were received on that Fatal-Flaw Review draft Standard regarding the proposed consequential amendments, which are largely machinery in nature. However, the AASB received supportive informal feedback. Accordingly, the AASB concluded that it would proceed with the amendments.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2022-8 and AASB 2022-9 as the amendments made apply explicitly to public sector entities and do not have a substantial direct or indirect impact on business or competition.

Legislative Features of Accounting Standards

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*.

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.

Copyright

This Standard, like all Accounting Standards promulgated by the AASB, is published with Commonwealth of Australia copyright. Educational, commercial and other publishers are able to request the AASB for permission to reprint all or parts of this Standard, which is given without charge.

Exemption from Sunsetting

Accounting Standards promulgated by the AASB that are legislative instruments are exempt from the sunsetting provisions of the *Legislation Act 2003* through section 12 of the *Legislation (Exemptions and Other Matters) Regulation 2015* (Item 18(a)).

The AASB's Standards incorporate Standards set by the International Accounting Standards Board in respect of publicly accountable for-profit entities. The AASB's Standards are exempt from sunsetting because a more stringent review process than sunsetting applies to the Standards. This review process ensures Australia's Accounting Standards regime remains consistent with international Standards. Typically, the AASB Standards are revised at least once within a ten-year period, with most of the Standards subject to much more frequent revisions. Each revision follows the stringent review process (which includes the opportunity for public comment) in order to remain consistent with international Standards. It is very unlikely that any AASB Standard would not have been amended (or else considered for amendment) within a ten-year period through these review processes. Therefore, if it applied, a ten-year sunsetting regime would have very limited practical application to AASB Standards. Parliamentary oversight is retained whenever a Standard is replaced or amended since the Standards are disallowable instruments and subject to the normal tabling and scrutiny process as required by the *Legislation Act 2003*.

Statement of Compatibility with Human Rights

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

Accounting Standard AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*

and

Accounting Standard AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*

Overview of the Accounting Standards

AASB 2022-8 amends AASB 17 *Insurance Contracts* to defer the mandatory application date of AASB 17 for public sector entities to annual periods beginning on or after 1 July 2026. It makes temporary consequential amendments to all Accounting Standards that refer to AASB 17 so that public sector entities (both for-profit and not-for-profit) are permitted to continue to apply AASB 4 *Insurance Contracts* and AASB 1023 *General Insurance Contracts* to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

AASB 2022-8 also repeals AASB 1038 *Life Insurance Contracts* and supersedes Interpretation 1047 *Professional Indemnity Claims Liabilities in Medical Defence Organisations* for annual periods beginning on or after 1 January 2023.

AASB 2022-8 applies to annual periods beginning on or after 1 January 2023. Earlier application is permitted.

AASB 2022-9 amends AASB 17 and AASB 1050 *Administered Items* to include modifications related to the application of AASB 17 by public sector entities. AASB 2022-9 also reverses the temporary consequential amendments set out in AASB 2022-8 that amended various Standards to permit public sector entities to continue applying AASB 4 and AASB 1023 to annual periods beginning on or after 1 January 2023 but before 1 July 2026.

AASB 2022-9 applies to annual periods beginning on or after 1 July 2026. Earlier application is permitted.

AASB 2022-8 and AASB 2022-9 incorporate marked-up text to clearly identify some or all of the amendments to Accounting Standards. All amendments are incorporated using clean text into the compilations of the pronouncements when they are prepared, based on the legal commencement date of the amendments.

Human Rights Implications

These two Standards are issued by the AASB in furtherance of the objective of facilitating the Australian economy. They do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

These Standards are 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*.