
EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT OF PRACTICE GUIDELINE 4: AASB 17 INSURANCE CONTRACTS

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the IFRS17 Professional Guidance Working Group on behalf of the Professional Standards Committee (PSC) to assist Members in understanding the proposed new Practice Guideline 4: AASB 17 Insurance Contracts (PG 4).

2. Background

PG 4 is the Australian adaptation of International Standard of Actuarial Practice 4: IFRS 17 Insurance Contracts (ISAP 4) issued by the International Actuarial Association (IAA) on 21 November 2019. The intentions of ISAP 4 are to:

- Facilitate convergence in standards of actuarial practice in connection with IFRS 17;
- Increase public confidence in actuarial services provided in connection with IFRS 17; and
- Demonstrate the IAA's commitment to support the work of the International Accounting Standards Board (IASB) in achieving high quality, transparent and comparable financial reporting internationally, as envisaged by the Memorandum of Understanding between the IAA and the IASB.

3. Rationale to Adopt ISAP 4 (Appropriately Modified)

It is proposed that ISAP 4 (appropriately modified) should be adopted as a new professional practice document of the Actuaries Institute. The reasons for this are outlined below.

- (a) ISAP 4 is believed to be relevant to Members in Australia as actuarial input is likely to be required for entities preparing accounts under AASB 17/IFRS 17.
- (b) It is believed that the guidance in ISAP 4 does not create additional effort or compromise existing guidance for Members in Australia.

Much of the content of ISAP 4 represents good common sense and would be consistent with what Members are already doing in the course of their work.

Members are already subject to equivalent guidance in the work that they do. ISAP 4 is not relevant to the wider fields, and so would not impact Members practicing outside insurance.

- (c) It is believed that ISAP 4 will contribute to good quality practice among Members.
- (d) It is believed that adopting a version of ISAP 4 (appropriately modified) will provide guidance for AASB 17 that is consistent for all relevant practice areas.

AASB 17 is a new standard and introduces changes to the requirements for actuarial figures provided for accounts. As such guidance is not currently provided. Adoption of a modified ISAP 4 and appropriate modification to existing Professional Standards and Practice Guidelines for the different practice areas will provide accounting standard specific guidance and remove the ambiguity about whether standards and guidance apply to accounting as well as regulatory standards. The new document will provide guidance for all practice areas in a consistent form.

4. Rationale to Adopt as a Practice Guideline

The Actuaries Institute has an established hierarchy of professional practice documents. Among other such documents, there are Professional Standards (PSs), which set out what must be done by Members, and Practice Guidelines (PGs), which are intended to assist Members in providing professional services. PSs cover Members' obligations while PGs describe generally accepted actuarial practice. The wording in a PS therefore uses 'must', while the wording in a PG uses 'should'.

It is proposed that the Australian adaptation of ISAP 4 be adopted as a PG. The reasons for this are outlined below.

- (a) Practice Guideline 1: General Actuarial Practice (PG 1) set a precedent of adopting International Standard of Actuarial Practice 1: General Actuarial Practice (ISAP 1) issued by the IAA as a PG.
- (b) Not all practice areas have a PS for their valuation standards. For example, Members preparing estimates of health insurance liabilities (defined by the Australian Accounting Standards) and the Future Claims Liability (defined by APRA Standards) of Insurers licensed under the Act are covered by a PG (699.02). To adopt ISAP 4 as a PS would mean a higher level of guidance for health accounting compared with regulatory valuations.
- (c) The ISAP's do not use the word "must" so the use of a PG would be more consistent.

5. Subsidiarity

It is proposed that if any requirement of PG 4 conflicts with legislation or the Code or a PS, then that legislation, the Code or PS takes precedence with respect to the conflict. In such cases, the remaining requirements of PG 4 that are not in conflict continue to apply.

6. Differences between PG 4 and ISAP 4

A compilation of differences between PG 4 and ISAP 4 is set out in Appendix A of PG 4. The key changes are outlined below:

- (a) A practice specific appendix has been included for health insurance. Australian PHI Complying Health Insurance Products (CHIP) have a number of features which create ambiguity in the interpretation of the application of AASB 17 to CHIP insurance policies. This appendix provides guidance to Members on issues to consider when performing Applicable Services in connection with AASB 17 for portfolios of insurance contracts including CHIP policies.
- (b) A number of terms have been changed to ensure consistency with local conditions and for clarification purposes. For example, “actuaries” has been changed to “Members”, “Applicable Professional Services” has been changed to “Applicable Services”, and “IFRS 17” has been changed to “AASB 17”.

No new definitions are proposed to be added to the Glossary of General Defined Terms in Practice Guidelines.

7. Degree of Convergence between PG 4 and ISAP 4

Despite the fact that there is not a direct connection between ISAP 4 and existing Institute documents (because of potentially different purposes to which the actuarial services are put), the IFRS 17 Professional Guidance Working Group has determined that there is a high degree of convergence between the guidance in ISAP 4 and the guidance in existing Institute documents

Furthermore, the IFRS 17 Professional Guidance Working Group has assessed that, based on the nature and extent of differences which exist between PG 4 and ISAP 4, there is “strong convergence” between PG 4 and ISAP 4 i.e. PG 4 materially conforms to the requirements of the IAA, with allowance for local modification to fit local conditions.

However, given the differences, it should be noted that compliance with PG 4 will not necessarily result in compliance with ISAP 4. Therefore, where a Member is required to

perform work in conformity with ISAP 4 (e.g. because the work is being undertaken in an overseas jurisdiction) the Member should refer to the specific requirements of ISAP 4.

8. Future Developments

It is expected that some changes may be made in due course to other professional practice documents issued by the Actuaries Institute as a result of the introduction of PG 4 and/or application of AASB 17 - for example, to improve consistency between documents and to be explicit about scope. This will be co-ordinated by the IFRS17 Professional Guidance Working Group and will take into account any other changes required in response to changes made by APRA to its prudential requirements in response to AASB 17.

9. Feedback on New PG 4

The PSC would appreciate Members' views on the proposed introduction of PG 4 and the content of the accompanying Exposure Draft of PG 4. Consultation is open until 31 July 2021. Feedback should be sent to AASB17_PG_Feedback@actuaries.asn.au.

10. Commencement Date

It is proposed that the new PG 4 will take effect for Applicable Services performed on or after 1 January 2023 (in line with the effective date of AASB 17) or on earlier adoption of AASB 17.

END OF EXPLANATORY MEMORANDUM