



Implementation:

IFRS 16 – Leases

IFRS 17 – Insurance

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27 November 2017

Outline

- General Comments
- Implementation Impact:
 - IFRS 16: Leases
 - IFRS 17: Insurance



New Zealand Equivalent to International Financial Reporting Standard 17 Insurance Contracts (NZ IFRS 17)

Issued August 2017

This Standard was issued on 10 August 2017 by the New Zealand Accounting Standards Board of the Financial Reporting Board pursuant to section 130(1) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 17(2) of the Financial Reporting Act 2013 takes effect on 1 September 2017.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraph C1 and C1 of Appendix C.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultations in accordance with section 124(2) of the Financial Reporting Act 2013.

This New Zealand Tier 1 and Tier 2 For-profit Accounting Standard has been issued as a result of a new International Financial Reporting Standard.

NZ IFRS 17 incorporates the equivalent IFRS[®] Standard as issued by the International Accounting Standards Board (IASB).

Tier 1 For-profit entities that comply with NZ IFRS 17 will simultaneously be in compliance with IFRS 17 Insurance Contracts.

Tier 2 For-profit entities must comply with all the provisions of NZ IFRS 17.

This Standard, when applied, will supersede NZ IFRS 4 Insurance Contracts as amended in 2016.

NZ IFRS 16



New Zealand Equivalent to International Financial Reporting Standard 16 Leases (NZ IFRS 16)

Issued February 2016

This Standard was issued on 11 February 2016 by the New Zealand Accounting Standards Board of the Financial Reporting Board pursuant to section 130(1) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 17(2) of the Financial Reporting Act 2013 takes effect on 10 March 2016.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraph C1 of Appendix C.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultations in accordance with section 124(2) of the Financial Reporting Act 2013.

This New Zealand Tier 1 and Tier 2 For-profit Accounting Standard has been issued as a result of a new International Financial Reporting Standard.

This Standard, when applied, will supersede the following Standards:

- (a) NZ IAS 17 Leases.
- (b) NZ IFRS 4 Determining whether an arrangement contains a Lease.
- (c) NZ IAS 16 Operating Lease Accounting.
- (d) NZ IAS 17 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

May 2017

IFRS[®] Standards

IFRS 17 Insurance Contracts



General Comments

Positive

Improved Consistency

Transparent Disclosure

IFRS16 changes for Lessee, IFRS17 significant: NZ in good position

Implementation

- Feasibility and Plan
- Control Environment for Implementation
- Data / Systems / Processes, People and Tools
- Technical Details, Disclosures, Audit Perspective
- Impact on Results, Business, Internal Reporting

Communication

- Complexity: Timeframes, Risk and Uncertainty
- Communication with Stakeholders
- Insurance: New Zealand and Australia aligned (TRG)

Leases: IFRS 16 Features

Leases: Buildings/Premises, Cars/Fleets, Equipment/Hire

IFRS16

No significant change to Lessor accounting

Changes to Lessee accounting – single measurement model

- Right to control use of an identified asset
- All leases onto Balance Sheet
 - unless short (<12m) or small (<~ \$5k)
- Operating costs will reduce, Amortization/Finance costs increase (initially)
 - Assets amortized under straight-line, Liabilities follow discount rate unwind
 - GAAP profit will likely reduce initially, APM: EBITDA will rise

Enhanced Disclosures

IFRS 16 – Implementation

Preparation: Adequate Data, Systems and Tools

Some specific issues:

What is a Lease. Potential overlap with service arrangements

Lease Duration, Fixed and Variable Payments, Discount Rates

Potential for impact on practice: Lease duration, Lease to buy

Impact on Bank Covenants, Good Communication: Investors

Small Businesses: Sub-leases, Resourcing

Insurance: IFRS 17 Features

Diversity of Insurance Contracts

- Timeframes
- Types of Risk and Coverage
- Insurance and Savings/Investment components
- Regulation

NZ (and AU) accounting developments - 20 years ago (MoS for Life Insurers)

Outline of Approach

General Method (BBA)	Projected CashFlows (Realistic, Probability Weighed, Discounted) + Risk Adjustment + Contractual Service Margin (CSM/Unearned Profit if not-Onerous)
Simplified Method (PAA)	Premium based Liability for Remaining Cover plus Liability for Existing Claims (BBA)

IFRS 17 - Impact and Issues for NZ Insurers

Contract Boundary and Simplified Method (PPA)	Contracts reassessed (risk and price), period that risk is taken into account for pricing. Some general/commercial covers greater than 12 months. Stepped premium, Risk only cover (called YRT, common in NZ and AU) Can these be measured using PPA (ie a 1 year measurement period)?
Aggregation and Onerous Contracts	Portfolio (similar/risk) and Group (Onerous/Cohort) – measurement Nature of Insurance, Pooling and Onerous contracts.
Risk Adjustment (RA)	New concept for Life/Health (& GI) contracts – market-oriented, entity risk appetite. Various modelling approaches, including confidence levels.
Bundling of Insurance and Savings	Unit of Account, Coverage Units. Contractual Service Margin (CSM) amortization.
Transition	Full Retrospective approach (with alternatives) – transition from NZ IFRS 4. Resourcing / Impact / Detail.
Remaining Coverage	PAA method - Premiums Received (or Due).
Reinsurance	Reinsurance to be separate to underlying direct insurance. Quota Share (measure as contracts ceded or as “expected” contracts).
Presentation	New for Insurers and Users: Premium Income => Insurance Contract Revenue.
Discount Rate	Greater consistency – approach with limited NZ bond market.



Te Kāwai Ārahi Pūrongo Mōwaho

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