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Attention: Ms Hannelie Cornelius

**CIRCULAR 6 OF 2019: CLASSIFICATION OF AND REPORTING ON  
ADMINISTRATION SERVICES**

In response to your request for comments on Circular No. 6 of 2019: Classification of and Reporting on Administration Services – Core vs Supplementary Services. In terms of this circular, core and supplementary administrative services are defined and reporting requirements of the terms are being amended to allow for comparison of services between various administrators and schemes.

We are writing this letter to bring these issues to the CMS's attention, with the intention of urging the CMS to consider concerns and points raised by the industry.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Kedibone Pilusa  
SAICA Project Director MIB Technical

cc: Shaun Osner (SAICA MSPG Chairman)  
cc: Esther Pieterse (SAICA MSPG Deputy Chair)

## **General issues identified**

- *The Guideline for the preparation of administration agreements in compliance with Regulation 18 and the administration standards* states as one of its “Other” administrator accreditation requirements under section 2.3 requirement number 7 the following: “The agreement confirms that the administrator will take out or has in place the required fidelity and indemnity insurance”. This is also stated in the *Requirements for medical schemes administrators* on page 3 whereby it is identified the fidelity and indemnity insurance as part of the general compliance requirements. We question therefore whether fidelity and indemnity insurance should not be classified as part of the core services due to the fact that a schemes will have to incur this costs either by fulfilling the services internally or through administrator insurance.
- There are concerns around the disclosure of these detailed costs as this is what gives medical schemes a competitive and pricing edge against each other and we question whether there would be confidentiality in the use of this information by the CMS?
- The circular further proposed a way forward and timelines, the stated timelines do not provide sufficient time for the schemes to implement the review and negotiations of the contracts that are in place to ensure full compliance going forth

## **Application of IFRS 15: Revenue from Contracts and Customers to administration services and contracts**

From the circular it is not clear as to how the CMS concluded that the core and supplementary administration services be disaggregated. As per the circular, the Council in its conclusion on separating the administration agreement between a scheme and its third party administrator quotes IFRS 15: Revenue from Contracts and Customers paragraph 114: “*An entity shall disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors*” and paragraph B89 which further elaborates “*Examples of categories that might be appropriate to include, but are not limited to, all of the following: (a) type of good or service (for example, major product lines):...*”

Under the Disclosure requirements of the standard, paragraph 114 requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consequently, the extent to which an entity’s revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances that pertain to the entity’s contracts with customers. Some entities may need to use more than one type of category to meet the objective while others may meet the objective by using only one type of category to disaggregate revenue.

When selecting the type of category to use to disaggregate revenue, an entity shall consider how information about the entity’s revenue has been presented for other purposes, including all of the following:

- a) Disclosures presented outside the financial statements (eg annual reports, investor presentations);
- b) Information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments; and
- c) Other information that is similar to the types of information used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

When considering the disclosure requirements under IFRS 15, there is no requirement to disaggregate revenue where the disclosure objective is met by using only one type of category to disaggregate revenue. Disaggregation to each administration category under administration contracts would provide limited additional information to the users of financial statements around the nature, timing, amount and uncertainty of revenue and cash flows affected by economic factors and disclosure of a single performance obligation under administration contracts would be appropriate and comply with the objective under IFRS 15.

As administration contracts between medical schemes and administrators generally have a single performance obligation, are satisfied over a short period of time (over a month) and the performance of administrators is measured at this single performance level, there is no requirement under IFRS 15, to disaggregate revenue to the various services required to administer a medical scheme.

The practices and processes for establishing contracts with customers vary across entities. Applying a standard view across all contracts between administrators and medical schemes, without consideration of the specific rights and obligations contained in these contracts may not be appropriate. The specific rights and obligations may result in different accounting.

As part of identifying and assessing performance obligations, an entity shall assess whether the services are separately identifiable, with the objective being to determine whether the nature of the obligation/promise within the context of the contract, is to transfer each of those services individually, or combined and therefore not separately identifiable.

Factors that indicate that two or more promises are not separately identifiable include, but are not limited to, the following:

- The entity provides a significant service of integrating services with other services in the contract into a bundle of services that represent the combined output or outputs for which the customer has contracted.
- The services are highly interdependent or highly interrelated. In other words, each of the services is significantly affected by one or more of the other services in the contract. For example, in some cases, two or more services are significantly affected by each other because the entity would not be able to fulfil its promise by transferring each of the services independently.

If a promised service is not distinct, an entity shall combine that service with other promised services until it identifies a bundle of services that is distinct. In some cases, that would result in the entity accounting for all the services promised in a contract as a single performance obligation.

In terms of contracts between medical schemes and accredited administrators, the obligations set out in the administration contracts are generally integrated and highly interdependent. Examples of these interrelated administration services have been set out in Circular 6 of 2019: Classification of and Reporting on Administration Services – Core vs Supplementary Services. These obligations are generally, not measured and assessed separately with the combined obligation being the administration of a medical scheme. Under these circumstances, there would be a single performance obligation. IFRS 15 provides for bundling various services into a single performance obligation.

We are therefore of the view the proposed change is not likely to provide useful information to the users, is it not practically feasible (or cost effective) to unbundle goods and services as proposed by the Council because it is one of the IASB's rationale for providing the practical expedients in IFRS 15 regarding the identification of performance obligations.

We also believe that there would be operational challenges experienced by the medical schemes and administrators to disaggregate the information as requested.