

Summary of the AASB Roundtable Discussion on the Proposals in the IASB's Exposure Draft ED/2010/8 *Insurance Contracts*

Topic 1 – Proposed Comprehensive Measurement Model

Question 1.1

Do you agree with the proposed 'building blocks' approach? Why or why not?

Melbourne and Auckland participants

Participants expressed general support for the proposed comprehensive measurement model and strong support for using fulfilment cash flows.

Sydney participants

Participants expressed general support for the proposed comprehensive measurement model, but expressed disagreement with the proposal not to remeasure residual margins.

Question 1.2

Do you agree that the risk adjustment should, if applicable, reflect the effects of diversification that arise within a portfolio of insurance contracts, but not the effects of diversification between that portfolio and other portfolios of insurance contracts held by an insurer? Why or why not?

Melbourne and Auckland participants

Participants noted that diversification is central to an insurance business and suggested the accounting standard for insurance contracts should reflect this. Participants also noted that:

- capital adequacy is determined on entity-wide basis, although this is presently a legal entity basis and that APRA may move to a group basis (at least for life insurance); and
- insurers offer a menu of products, each with potentially different capital/risk requirements, so there is cross-subsidisation that could only be reflected by entity-wide diversification.

Accordingly, participants agreed with the proposals in paragraph 35 of the ED but disagreed with the proposals in paragraph 36, which would prohibit an entity from including diversification benefits arising across portfolios in the risk adjustment. Participants also expressed concerns about portfolios being defined in terms of when policies incept because this has the potential to give rise to a large number of portfolios, which would mean that diversification is only narrowly focused (if not eliminated) under the proposals.

Sydney participants

Participants expressed general support for risk adjustments being calculated at the entity level and noted that:

- the proposed definition of risk adjustment arguably reflects elements of fair value measurement, particularly the expectation that an insurer might rationally pay a third party to assume its insurance liabilities. Participants also noted that the definition presupposes that cash flows will be greater than assumed, rather than less. Accordingly, it is unclear how an insurer would determine a risk adjustment for a portfolio of insurance contracts that are an asset;
- diversification is the basis of most insurance businesses and if the accounting requirements for insurance contracts fail to reflect this they will not assist preparers or users;
- the European Union's Solvency II proposals appear to be moving towards an entity level approach, although they may not go as far as prescribing a group-level approach;
- acquirers take into account the diversification benefits they will yield across their portfolios when acquiring portfolios. The acquisition price will also often reflect other factors not related to the acquired portfolio, including market perceptions about the entity from which the portfolio is being acquired;
- under the proposals, portfolios would potentially differ across entities. Accordingly, portfolio-level information may not be comparable across insurers, and this is particularly a concern in relation to long-tail insurance obligations;
- the cost of capital technique is arguably not consistent with the proposal that the risk adjustment reflect the effects of diversification within a portfolio of contracts but not between portfolios. Under a cost of capital technique, an insurer with diversified activities might use the group's rate of return to estimate its risk adjustment, thereby incorporating diversification benefits in the risk adjustment; and
- regulatory capital rules and reinsurance arrangements tend to equalise the risks/cost of capital across small and large insurers.

Participants also expressed disagreement with the FASB's composite margin proposals, noting that:

- the Global Financial Crisis highlighted that the market reprices risk when new information becomes available and when the underlying conditions change;
- insurers are in the business of accepting risk so it is incongruous to propose that they don't explicitly measure or remeasure risk adjustments; and
- to avoid any potential misunderstanding, responses to the IASB that support an explicit risk adjustment that is subject to remeasurement should also clarify that they do not support the FASB's composite margin proposals.

Question 1.3

Do you agree that an insurer should recognise residual margins determined at initial recognition as income in profit or loss over the coverage period of the underlying insurance contracts in the proposed manner? Why or why not?

Melbourne and Auckland participants

Participants noted that it is necessary to remember the residual margin is a 'plug'. Nevertheless, it could be a significant amount for life insurers, and depending on the amortisation approach (profit carrier), the profit could be 'back-ended'.

Most participants expressed a preference for the residual margin to be remeasured for the impacts of changes in assumptions, based on up-to-date information (consistent with the margin on services approach under AASB 1038 *Life Insurance Contracts*). Participants also noted that:

- the assumptions can be 'trued-up' over time because the insurer would normally continue to receive new information on the risks associated with the same or similar products, particularly if it keeps selling them; and
- insurers are generally active in re-pricing to meet the market.

Sydney participants

Participants expressed disagreement with the proposal to 'lock in' the residual margin and have it run off over the coverage period. Participants suggested that requiring the residual margin to be remeasured (similar to the approach under AASB 1038 for margin on services) would allow insurers less scope to manipulate profits as current profits would not be subject to changes in assumptions regarding future conditions. Participants also noted that assumption changes normally have a relatively greater impact on insurer's profits than other changes in components of insurance liabilities, including losses at inception and experience adjustments.

Participants also noted that:

- for life insurance contracts, claims can provide a reasonable profit driver for recognising margins on services; and
- for investment products, assets under management can provide a reasonable profit driver for releasing margins.

Topic 2 – Short-duration Insurance Contracts

Question 2.1

Do you agree that an insurer should be required (rather than permitted) to apply a premium allocation model for measuring pre-claims liabilities of short-duration insurance contracts? Why or why not?

Melbourne and Auckland participants

Participants expressed support for a ‘short versus long’ approach rather than a ‘general versus life’ approach. However, some participants expressed concerns about the treatment of contracts with coverage periods between one and two years under the IASB’s proposals. Some participants also expressed concerns that some reinsurance contracts for short-duration direct contracts would be treated as long-duration contracts, so there would be a mismatch between the measurement model used for direct insurance and reinsurance contracts.

Some participants were opposed to requiring (rather than permitting) the unearned premium approach being applied to short-duration insurance contracts because it would force some insurers that have both short-duration and long-duration contracts to run two measurement models for pre-claims liabilities, thereby diminishing the comparability of their financial results. They also expressed concerns that highly similar contracts with coverage periods that are slightly shorter or longer than 12 months would need to be treated differently under the proposals. Other participants, however, noted that they considered relevance to be a more significant criterion for determining which measurement approach should apply to insurance contracts. Most of the participants expressed support for an approach that required insurers to apply the comprehensive measurement model, but permit them to apply the unearned premium approach where it would give the same or similar reporting outcomes as the comprehensive model for pre-claims liabilities.

Sydney participants

Participants generally agreed that:

- using contract duration as a basis for determining the measurement approach for pre-claims liabilities would cause some contracts (such construction and building warranty contracts) to be treated differently from other similar types of insurance contracts. In turn, this would prevent some general insurers reporting on similar types of insurance contracts on a consistent basis; and
- insurers should be permitted rather than required to use an unearned premium approach for short-duration insurance contracts and other contracts that are similar in nature.

Accordingly, participants generally agreed that the IASB should revisit the proposals with the view to identifying criteria that are not time-based and would facilitate pre-claims liabilities for similar insurance contracts being treated in a similar manner.

Question 2.2

Do you agree that an insurer should remeasure a portfolio of short-duration insurance contracts that are, collectively, onerous to the present value of the fulfilment cash flows? Why or why not?

Melbourne and Auckland participants

Participants expressed strong support for the ‘onerous short-duration contract’ proposals, although some expressed concerns about the unit of account in terms of products knowingly priced as loss leaders. On this basis, some participants suggested that the onerous contract test should be applied at the portfolio level rather than at the individual contract level.

The question of whether the onerous contract test should be determined net or gross of reinsurance was also raised by some participants as an issue that the IASB should clarify. Australian and New Zealand Accounting Standards and the Australian prudential requirements allow insurers to assume that direct policies are covered for reinsurance, even if the reinsurance policies in force do not cover the whole of the direct insurance period.

Sydney participants

Participants agreed that:

- the proposals are similar in principle to the liability adequacy test (LAT) requirements under Australian Accounting Standards; and
- it is appropriate that pre-claims liabilities that are measured using an unearned premium approach be remeasured on a portfolio basis when the underlying contracts are onerous.

Participants also noted the following issues in relation to applying a LAT under Australian Accounting Standards that might be relevant to understanding how the proposals might be interpreted and applied in other jurisdictions.

- Some insurers adopt a relatively narrow definition of a portfolio, which increases the likelihood that they will recognise losses in respect of a relatively small number of contracts/portfolios, even when the insurer is profitable overall. In particular, requiring onerous short-duration contracts to be remeasured on a sub-portfolio basis (contracts with similar dates of inception) is likely to increase the probability that insurers will be required to remeasure contracts and recognise losses.
- Insurers that offer discounts to policyholders in respect of their second and third policies are more likely to be required to apply a LAT.
- Confidence levels applied to pre-claims liabilities subject to a LAT tend to be smaller (and in some cases significantly smaller) than the confidence levels applied to claims liabilities for the same types of insurance contracts. Participants noted that such an approach is permitted under Australian Accounting Standards, and may be consistent with the prevailing facts and circumstances. However, other participants suggested that such an approach is contrary to the spirit of the current reporting requirements.

Topic 3 – Contract boundary principle

Question 3.1

Do you agree with the proposed boundary principle and do you agree insurers would be able to apply it consistently in practice? Why or why not? If not, what approach would you recommend?

Melbourne and Auckland participants

Participants expressed concerns about the implications of the contract boundary proposals for health insurers. Health insurers in Australia and New Zealand currently account for their health insurance contracts as short-duration insurance contracts. This is because most health insurers settle almost all of their outstanding claims within three months of notification. However, under the contract boundary proposals they would potentially be required to:

- treat the boundary of the contract as the date on which the policyholder is expected to lapse or become deceased; and
- measure health insurance contracts using the comprehensive measurement model.

The regulation of health insurance in Australia prevents adjusting for individual risks, but adjustments are made at the portfolio level. The Australian health insurance environment is designed to ensure insurance is managed at the portfolio level because it includes portability without underwriting. At the portfolio level, health insurers can adjust premiums (with government ‘approval’) and a whole benefit table can be adjusted, for example, by removing or adding excesses or claim limits on ancillary items, or withdrawing or adding features from a particular table.

Similar factors are at work in those Australian states where compulsory third party motor insurance (CTP) is provided by private sector insurers but still closely regulated by government, with the aim of providing all drivers with access to affordable CTP while allowing insurers to make a reasonable return on the business as a whole. Adjustments are made to premiums to reflect the overall risk experience with CTP, but an insurer cannot fully price risk for individual policyholders.

In New Zealand, there are some parallels with the Australian situation in practice, notwithstanding that New Zealand health insurers are not subject to the same level of government oversight.

Some participants indicated that they prefer a differential measurement approach based on the ‘life versus non-life’ distinction over the proposed ‘short versus long-duration’ approach. In addition, most participants agreed that, in the context of the proposed contract boundary principle, the key criterion for determining contract boundaries should be the ability to re-price risk at a portfolio level.

Some participants also raised concerns regarding whether the modified approach could be applied to reinsurance contracts in all circumstances when the underlying direct insurance contracts were measured on such a basis. This issue was discussed in more detail later in the roundtable in the context of other issues.

Sydney participants

Most participants agreed that the contract boundary proposals would have implications for health insurers as well as insurers that provide CTP, lender mortgage insurance (LMI) and builders’ warranty insurance. Participants noted that:

- apart from the fact that health insurers re-underwrite contracts on a portfolio (rather than an individual contract) basis, health insurance contracts would otherwise be generally considered short-duration in nature;
- the proposals, if adopted, may lead some insurers to change the terms and conditions of their LMI and builders’ warranty insurance contracts;
- trustees of superannuation plans often acquire group life policies for members of their superannuation plans, and these contracts are usually re-rated annually on a portfolio basis; and

- while most insurers that offer health and CTP insurance contracts are restricted in their capacity to re-price these types of contracts on an individual (and sometimes portfolio) basis, they sometimes can alter the terms under the policies, which would have the same economic effect as re-pricing. Accordingly, these insurers might be considered to be able to ‘effectively’ re-price their health and CTP insurance contracts, notwithstanding that they might not be able to actually or fully change the premiums charged on individual contracts.

Accordingly, participants suggested that the IASB should consider either amending the proposed criteria in paragraph 27 of the ED or introduce a third ‘test’ that would permit an insurer that could reprice on a portfolio basis to measure the contracts using an unearned premium approach.

Topic 4 – Acquisition Costs

Question 4.1

Do you agree that incremental acquisition costs should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not?

Melbourne and Auckland participants

Most participants agreed that the proposals regarding acquisition costs are too dependent on the sales/distribution model used by the insurer (agents versus in-house). Accordingly, if adopted, the proposals would be subject to ‘gaming’, whereby two insurers might agree to market each others’ products to convert in-house costs to incremental acquisition costs at the contract level. Accordingly, some participants favoured focusing on acquisition costs at the portfolio level, either incremental or ‘direct’ acquisition costs, rather than individual contract level. Other participants favoured immediately expensing all acquisition costs.

Sydney participants

Participants noted that:

- acquisition costs are generally incurred prior to the inception of an insurance contract. However, at this point in time it is difficult to identify which contracts will be implemented and, therefore, which costs should be carried forward;
- the proposals favour insurers that sell their contracts through external agents over those that have in-house sales arrangements. Consequently, if adopted, the proposals would diminish the comparability of the financial statements across insurers as they would make those that use external agents look more profitable (at least initially) compared to those that have internal sales arrangements. In addition, the proposals would potentially undermine the comparability of the reported results of an insurer that sells different types of contracts that are similar in all respects except that they are distributed through different channels;
- a significant portion of the residual margin of most general insurance contracts is acquisition costs;

- notwithstanding that there is some scope for insurers to determine the boundaries of their portfolios under the proposals in the ED, there are some acquisition costs that are arguably incremental at the portfolio level. In addition, requiring acquisition costs that are incremental at the portfolio level would be consistent with the proposed level of aggregation required for cash flows and risk adjustments; and
- the proposals are inconsistent with the IASB's proposals in ED/2010/6 *Revenue from Contracts with Customers* and the treatment of acquisition costs under IAS 39 *Financial Instruments: Recognition and Measurement*.

Topic 5 – Presentation and Disclosure

Question 5.1

Do you agree that the proposed 'summarised margin' presentation approach will provide relevant information for users of the financial statements of insurers? Why or why not? If not, what alternative would you recommend and why?

Question 5.2

Are there any disclosures that have not been proposed that you consider would provide relevant information for users of the financial statements of insurers? If so, what are these disclosures?

Question 5.3

Do you consider any of the proposed disclosures not to be cost-beneficial? If so, why?

Melbourne and Auckland participants

Most participants indicated that the proposed disclosures would facilitate the provision of useful information to the users of the financial statements of insurers and would not be unduly onerous for insurers to apply. However, participants also agreed that it should be at the insurer's discretion as to how the disclosures are presented.

Participants expressed disagreement with the proposed summarised margin presentation approach on the face of the statement of comprehensive income. Most participants consider the proposed approach would be particularly problematic for an entity that has insurance and non-insurance businesses. Participants also noted that:

- many of the ratios that analysts commonly use require 'gross' information (premiums and claims) but this information may be lost under the presentation proposals, which seem to assume that net information is more useful; and
- in some circumstances, small changes in gross items could have significant impacts on the net amounts, notwithstanding that the long-term trends remain relatively constant. Consequently, users might be misled by insurers putting too much emphasis on net rather than gross information.

Participants expressed little support for disclosing reconciliations on a portfolio-by-portfolio basis, unless portfolios were to be determined at a higher level than proposed (date of inception) or permitted to be aggregated. This is because most participants consider that the

proposals may cause some insurers to recognise a large number (possibly hundreds) of portfolios. It was noted that the proposals for reconciliations (a recurring theme in recent IASB EDs) has come from users' views identified by the IASB in the context of its Financial Statement Presentation project.

There was a general view that the disclosure proposals, particularly the reconciliation proposals, should be field tested. Most participants expressed general ambivalence about disclosing confidence levels, although one participant suggested that it would be misleading to disclose the equivalent confidence level if a conditional tail expectation or cost of capital technique is used.

One participant suggested that:

- deferred acquisition costs should be reconciled because they are a major profit driver (although maybe less so in future);
- the impact of assumption changes should be quantified, where feasible, for life insurance contracts;
- the termination rate versus the incident rate for life insurance contracts should be disclosed; and
- there should be disclosure of, for example, the five key five assumptions that have the most significant impact on an insurer's reported results, and it should be highlighted when there is a change in the composition of those five key assumptions to help users discern trends.

Sydney participants

Most participants agreed that it is difficult to discern what impact the presentation and disclosure proposals might have on the information provided by insurers, particularly if the IASB decides to amend the recognition and measurement proposals. Nevertheless, participants expressed some concerns regarding aspects of the proposals, including:

- paragraph 72(d) proposes that experience adjustments and changes in estimates could be presented as a single line item in the statement of comprehensive income. A participant recommended that experience adjustments and changes in estimates should always be presented separately, otherwise insurers would be inappropriately adding historical and current measures together;
- applying the proposed summarised margin approach would pose some challenges to entities with both insurance and non-insurance businesses;
- the proposals would potentially require insurers to provide more detail in their disclosures. While users may not benefit significantly from being provided with more granular disclosures, insurers might as it would potentially give them some useful information about their competitors; and
- the disclosure proposals applicable to short-duration insurance contracts need to be worded more clearly.

Participants agreed that the IASB should review the presentation and disclosure proposals once it has finalised its thinking on the recognition and measurement proposals, particularly the treatment of residual margins. Participants also agreed that the presentation and

disclosure proposals would benefit from field tests involving users. However, participants also agreed that the IASB should adhere to its current timetable, which anticipates a new IFRS on insurance contracts by June 2011. Accordingly, if it were likely that any reviews and/or field tests would cause the IASB to miss this deadline, they should be incorporated into the IASB's post-implementation review of the new standard.

Participants discussed some aspects of the information currently disclosed by insurers under Australian Accounting Standards. While participants agreed that the disclosures provided by local insurers are arguably better than those provided by many insurers in other jurisdictions, they also agreed that some of the information currently disclosed by insurers under Australian Accounting Standards is possibly not as transparent as it could be. In particular, participants noted that:

- insurers generally provide relatively little information around:
 - residual margins;
 - best estimate cash flows;
 - reserve releases;
 - the relationships between probability of adequacies, central estimates and risk margins; and
 - the relative contributions that new and past business make to profit; and
- the information currently provided in claims development tables:
 - is often not comparable across insurers;
 - does not provide a break-down of claims by contract type;
 - does not provide information regarding profit development; and
 - can be distorted by foreign currency changes when the insurer issues insurance contracts in other jurisdictions.

Topic 6 – Transition

Question 6.1

Do you agree that, at the beginning of the earliest period in which the proposals in the ED are applied, an insurer should (with a corresponding adjustment to retained earnings):

- (a) measure each portfolio of insurance contracts at the present value of the fulfilment cash flows. Accordingly, for insurance contracts to which the proposed transitional provisions would apply, the measurement, both at transition and subsequently, would not include a residual margin;
- (b) derecognise any existing balances of deferred acquisition costs; and
- (c) derecognise any intangible assets arising from insurance contracts assumed in previously recognised business combinations. (That adjustment, however, would not affect intangible assets, such as customer relationships and customer lists, which relate to possible future contracts.)

Melbourne and Auckland participants

Participants expressed strong support for at least permitting retrospective application. Some participants were of the view that the cost of implementing the proposals will be significant (particularly in jurisdictions other than Australia and New Zealand), but the cost of applying the proposals retrospectively is unlikely to be significant relative to the total cost of adopting the proposals.

Participants acknowledged that grandfathering the accounting for residual margins under IFRS 4 *Insurance Contracts* would not achieve consistency because IFRS 4 permits different practices, depending on national GAAPs.

Some participants suggested that an opening fair value approach could be adopted, which is the approach usually adopted for first-time adopters under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. It was emphasised by some participants that the IASB should be consistent on this matter between transitioners and first-time adopters.

Some participants noted that requiring prospective treatment is probably consistent with the proposal for 'locked-in' residual margins. However, if the IASB decides to amend its proposals in relation to residual margins to require remeasurement, retrospective application of the model would be more feasible.

Sydney participants

Participants discussed the feasibility of retrospectively applying the IASB's proposed model and noted that:

- it was probably feasible for Australian and New Zealand insurers to apply the proposed model going back 5 years, but this would probably require them making a high level adjustment for acquisition costs and making some modifications to experience adjustments going forward;
- comparability across jurisdictions is arguably ambitious in the context of insurance contracts and in some respects not justified, particularly as the results from in-force and new business are generally not comparable. Instead, the IASB should be concerned about whether insurers can apply the proposed model in a way that facilitates the provision of reliable information;
- if the residual margin proposals were adopted and retrospective application were permitted, insurers would need to agree to a basis for running off residual margins with their auditors;
- the IASB's proposals are arguably not consistent with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which permits retrospective application provided that application of the new accounting policy is not impracticable; and
- while a business combination approach would not provide a residual margin consistent with the IASB's proposals, it may be feasible for some insurers to apply the proposed model to in-force business on the date of transition. Past examples of 'lapse and re-entry' arrangements and demutualisations, which have involved liabilities being remeasured at a point in time, provide some support for the view that retrospective application is feasible and could be done reliably. However, participants also agreed

that it would be inappropriate for an insurer to be permitted to use hindsight to determine prior period assumptions to measure current insurance liabilities.

Question 6.2

Do you agree that:

- (a) an insurer should be permitted to early adopt the IFRS on insurance contracts; and
- (b) the IASB should delay the effective date of IFRS 9 *Financial Instruments* for insurers if the IFRS on insurance contracts has a mandatory effective date later than 1 January 2013.

Melbourne and Auckland participants

Most participants agreed that adoption of IFRS 9 is unlikely to be an issue for insurers in Australia and New Zealand, but if it is an issue for some then they would not object to the effective dates of the revised IFRS 4 and IFRS 9 being aligned. However, some participants expressed disagreement with the prospect of the effective date for IFRS 9 being linked to insurance activities because this would mean that an entity with insurance and non-insurance activities could have two IFRS 9 adoption dates.

Sydney participants

Participants were generally supportive of:

- insurers being permitted to early adopt the new IFRS for insurance contracts; and
- the adoption date for IFRS 9 being aligned with the adoption date for the new IFRS for insurance contracts, particularly if it made it easier for insurers to transition to the new reporting arrangements.

Other issues

Melbourne and Auckland participants

Participants identified a number of other issues for discussion, including:

- *point estimates versus stochastic modelling* – most participants consider the choice between the two approaches is a case of ‘horses for courses’. Point estimates are generally acceptable when there is relatively little variability in expected outcomes, but modelling would be necessary otherwise. Some participants also noted that they consider the guidance in the ED is designed to dissuade entities from using point estimates;
- *financial guarantees* – one participant suggested that many financial guarantee contracts are different from insurance contracts because the policyholder does not have to demonstrate a loss. For these types of financial guarantee contracts, the policyholder can exercise a guarantee and then it’s up to the guarantor to collect the debt, and any problems with collectability reside with the guarantor. That is, the role of many financial guarantee arrangements is to facilitate a loan. Accordingly, the participant supports an IAS 39 (IFRS 9) approach for all financial guarantees because they predominantly expose entities to general lending risks rather than insurance risks;

- *discount rates* – participants generally agreed with the proposal for an insurer to use risk-free discount rates adjusted for illiquidity for non-participating insurance contracts. One participant noted that many life insurance portfolios give rise to assets (because of deferred acquisition costs) rather than liabilities, so higher or lower discount rates may have the opposite impact to that which is expected. There was also general agreement among participants with the proposal that credit risk be excluded from the measurement of insurance liabilities in view of the model being based on fulfilment cash flows (as opposed to an exit value notion as proposed in the IASB’s Discussion Paper *Preliminary Views on Insurance Contracts*);
- *reinsurance contracts* – participants noted that some insurers have ‘umbrella’ reinsurance arrangements that run for more than one year. Consequently, under the IASB’s proposals the direct insurance which is a short-duration contract would be measured using an unearned premium approach whereas the related reinsurance contract would be measured using the comprehensive measurement model. Some participants suggested that this type of mismatch might encourage financial engineering, especially since diversification at the direct policy stage is at the portfolio level (while reinsurance diversification would be wider). In addition, some participants expressed support for insurers recognising gains on reinsurance contracts, but only when there is a direct correlation with a direct portfolio that is showing a loss; and
- *taxes* – some participants expressed concerns as to whether the proposals permit an insurer to include value-added taxes and goods and services tax in the estimates of cash flows for insurance contracts.

Sydney participants

Participants identified a number of other issues for discussion, including:

- *taxes on life products* – participants noted that the current prohibition against discounting tax liabilities under IAS 12 *Income Taxes* would have implications for the size of residual margins recognised under the proposed model. Participants also noted that taxes paid on members’ policies are currently being treated by insurers as an expense (‘above the line’), even when insurers are acting as agents for members with respect to these taxes. As these taxes are a cash flow under the contract, participants suggested they should be included in the measurement of insurance liabilities;
- *reinsurance contracts* – some participants expressed agreement with the proposals for an insurer to recognise a gain on reinsurance when the gain mirrors a loss in the underlying direct insurance contract. However, other participants expressed concerns with the proposals, primarily because gains could arise as a consequence of diversification benefits to the reinsurer. Participants also expressed concerns with:
 - the applicability of the wording in the ED in relation to direct insurance contracts to reinsurance contracts; and
 - accounting for reinsurance contracts that are partially-performance based under the proposals in the ED;
- *discretionary participation features* – participants noted that the ED distinguishes between participating contracts with cash flows that are affected by insurance risk and those that are not, and that the former would be accounted for under the IFRS for insurance contracts and the latter would be accounted for under IAS 39. Participants suggested that the proposals in the ED are sufficiently different from the requirements

under IAS 39 to warrant all participating insurance contracts being accounted for under the one Standard and therefore recommended all participating contracts be within the scope of the replacement Standard for IFRS 4;

- *discount rate for participating contracts* – some participants suggested the wording in paragraph 32 does not provide sufficient guidance in relation to how a discount rate for contracts that depend wholly or partly on the performance of specific assets should be determined. Participants noted that participating contracts may not be backed by particular assets;
- *unit-linked contracts* – participants noted the ED proposes that insurers recognise investments in ‘treasury shares’ held for the purpose of unit-linked contracts, and that this is not consistent with the treatment of such investments under IAS 32 *Financial Instruments: Presentation*. Participants generally agreed that the proposals did not pose any significant concerns; and
- *unbundled insurance contracts* – participants expressed concerns with a number of aspects of the unbundling proposals, including whether the:
 - unbundled cash flows in relation to investment returns should be net of tax;
 - components of an insurance contract should be unbundled when one (or more) of the components is loss-making; and
 - cash flows attributable to bundled components need to be ‘closely related’ or ‘interrelated’.

Appendix A – List of Roundtable Participants

Sydney – PricewaterhouseCoopers, Darling Park Tower 2, 201 Sussex Street, Sydney

Name	Organisation
Tony Coleman	Lonergan Edwards and Associates
Chris Lewis	APRA
Greg Martin	KPMG Actuaries
Kim Smith	PricewaterhouseCoopers
Ian Moyser	KPMG
Grant Robinson	AMP
Andrew Kitchen	Insurance Australia Group Limited
Matthew Dunger	Macquarie Securities Group
Colleen Chapman	Allianz Australia Insurance Ltd
Greg Johnstone	Zurich Financial Services Australia
Paul Harris	Ernst & Young
Victor Clarke	AASB
Dean Ardern	AASB

Melbourne – AASB Offices, Level 7, 600 Bourke Street, Melbourne

Name	Organisation
Christina Habal	ANZ
Jeroen van Koert	AXA Australia
Jon Marcard Michael Sammells	Medibank
Roger Miles	Medical Indemnity Protection Society Ltd
John de Zwart	Tower Insurance
Scott Hadfield	PricewaterhouseCoopers
Glen Kong	Worksafe Victoria
Warren McGregor	IASB
Kevin Stevenson	AASB
John O’Grady	AASB
Glenn Appleyard	AASB
Angus Thomson	AASB

Observers: Marissa Royer – AXA Australia; Anna Adamidis – ICAA; Anthony Braden – Chartis.

Auckland – NZICA Offices, Carlaw Park, 12-16 Nicholls Lane, Parnell

Name	Organisation
Bill Wilkinson	KPMG
Karl Deutsche	PricewaterhouseCoopers
Mark Hucklesby	Grant Thornton New Zealand
Martin Stott	IAG New Zealand Limited
John Feyter	Southern Cross Healthcare
John Smeed	Finity Consulting
Patricia McBride	New Zealand Institute of Chartered Accountants
Clive Brodie	New Zealand Institute of Chartered Accountants