



Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

6 August 2013

Dear Mr Stevenson,

Invitation to comment on AASB Exposure Draft 241 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders

We are responding to your invitation to comment on the above Exposure Draft (ED) on behalf of PwC.

We have read the exposure draft, along with the basis for conclusions, and welcome the AASB's proposal to remove the consolidation requirements from AASB 1038 *Life Insurance Contracts*, including the explicit requirement for a life insurer to consolidate policyholders' interests, and thereby leave AASB 10 *Consolidated Financial Statements* as the sole source of consolidation requirements applicable to life insurer entities.

We support the proposal to maintain principles-based Australian Accounting Standards and remove additional entity-specific requirements, as has been included in AASB 1038.

We agree with the Board that under AASB 10, it is conceivable there could be circumstances in which policyholder interests are not controlled by the life insurer. In practice we have not identified a current life insurance structure that would be deconsolidated in accordance with AASB 10.

However, a structure might exist that would meet the 'deemed separate entity' test and therefore should not be consolidated under AASB 10. In this scenario, it would be inappropriate for Australian-specific standards to require consolidation and lead to non-compliance with International Financial Reporting Standards ('IFRS'). In our view, there is no basis for a departure from IFRS for life insurer entities.

Our detailed responses to the specific questions of the ED are in Appendix A to this submission.

We would welcome the opportunity to elaborate on our views if you wish. Please contact Jan McCahey on (03) 8603 3868 or me on (02) 8266 7104 if you would like to have a discussion.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P. Shepherd', is written over a printed name 'Paul Shepherd'.

Paul Shepherd
Partner
Assurance



Appendix A: Specific matters for comment

1. whether the proposals in this Exposure Draft are supported;

As outlined in the cover letter, we support the proposal to remove the consolidation requirements from AASB 1038 and leave AASB 10 as the sole source of consolidation guidance applicable to life insurer entities.

We agree with the Board that under AASB 10, it is conceivable there could be circumstances where a Life insurance structure meets the 'deemed separate entity' test and therefore should not be consolidated under AASB 10. In this scenario it would be inappropriate for Australian-specific standards to require consolidation and lead to non-compliance with International Financial Reporting Standards.

2. whether the amendments proposed in this Exposure Draft would result in a change from current practice, and, if so, why;

We do not believe the amendment will result in a change from current practice.

In our view, when applying the principles of control outlined in AASB 10 to typical Australian life insurance structures, particularly the guidance relating to a deemed separate entity, there are a number of barriers to deconsolidation. These barriers include provision of guarantees, mechanics of consolidated tax groups in the event of default, reimbursements of Statutory funds for operational incidents and mechanics of redemptions of unit linked investment contracts.

However, there could be, now or in the future, instances where a structure might meet the 'deemed separate entity' test and therefore should not be consolidated under AASB 10. We have discussed these instances with AASB staff.

We note in the Basis of Conclusions that the Board is aware of concerns that removing the consolidation requirements from AASB 1038 could lead to diversity in practice. We do not share this concern. The Board has adopted the principles in AASB 10 acknowledging that judgement is required in its application.

3. whether paragraph 4.1.2 of AASB 1038 should be retained;

We support removing paragraph 4.1.2. Whilst it does give specific guidance in relation to the classification as liability or equity of retained profits in a friendly society, the appropriate classification can be derived from AASB 132 *Financial Instruments: Presentation* without need for further guidance.

4. whether, overall, the proposals would result in financial statements that would be useful to users;

AASB 10 requires consolidated financial statements to be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The Board has committed to developing a financial reporting framework based on clear principles, where the financial reporting of transactions and other events is designed to reflect their economic substance. The resulting financial information will be more relevant and useful to users. Furthermore, AASB 12 would require detailed disclosures in the event that a deemed separate entity is not consolidated.



5. **whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

(a) not-for-profit entities; and

(b) public sector entities, including GAAP/GFS implications;

We are not aware of any specific regulatory or other issues arising in the Australian environment in respect of the abovementioned entities that should be considered as part of the proposals.

6. **whether the proposals are in the best interests of the Australian economy;**

We refer to the AASB's policies and processes relating to the international standard setting process, where the AASB acknowledges 'in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that the IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy.' We do not consider there is a need to maintain the separate considerations around control specific to AASB 1038. Removing the consolidation requirements in AASB 1038 will leave AASB 10 as the sole source of guidance in respect of consolidation. This will ensure that, in respect of the control assessment for Australian life insurance structures, Australian Accounting Standards will be consistent with International Financial Reporting Standards.

7. **unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative.**

Our analysis of the costs and benefits of the proposed amendment to AASB 1038 is outlined above. The proposed amendments will ensure that, in respect of the control assessment of Australian life insurance structures, Australian Accounting Standards will be consistent with International Financial Reporting Standards.



National Australia Bank Limited
ABN 12 004 044 937

800 Bourke Street
Docklands Victoria 3008
AUSTRALIA

6 August 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

To the Chairman of the Board

Exposure Draft 241 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders

We are pleased to have the opportunity to provide our comments on Exposure Draft 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*. Our comments on the specific questions in the exposure draft are addressed in the Appendix.

National Australia Bank is one of the four major banks in Australia. Our operations are predominantly based in Australia, New Zealand, the United Kingdom, the United States and Asia. In our most recent annual results we reported net profit after tax of \$4.1 billion and total assets of \$763 billion. Through our wealth management division, we provide investment, superannuation and insurance solutions to corporate and institutional customers. As at 30 September 2012 the group's life insurance entity (MLC Limited) had investment assets totalling more than \$60 billion and policy liabilities of \$57 billion.

In general we support the proposal to remove the consolidation requirements from AASB 1038, including the explicit requirement for a life insurer to consolidate policyholders' interests. We support the view that AASB 10 should be the sole source of consolidation requirements for life insurers and their parent entities.

We note that the proposed application date of the proposals is for annual reporting periods beginning on or after 1 January 2014, but early adoption is permitted for annual reporting periods beginning on or after 1 January 2005. In our view it would be beneficial if the proposal was finalised in time to allow early adoption of the amendments in the same financial period as the application of AASB 10 (annual reporting periods beginning on or after 1 January 2013).

Should you have any queries regarding our comments please do not hesitate to contact Marc Smit, Head of Group Accounting Policy at marc.smit@nab.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "S Gallagher", written over a horizontal line.

Stephen Gallagher
General Manager, Group Finance

Appendix – Specific Matters for Comment

Question 1

Comment on whether the proposals in the Exposure Draft are supported:

We support the proposal to remove the consolidation requirements from AASB 1038, including the explicit requirement for a life insurer to consolidate policyholders' interests. We also support the view that AASB 10 should be the sole source of consolidation requirements for life insurers and their parent entities.

We believe it is beneficial to remove the potential conflicting consolidation requirements that currently exist between AASB 1038 and AASB 10.

Question 2

Comment on whether the amendments in the Exposure Draft would result in a change from current practice, and if so, why:

We believe the amendments in the Exposure Draft remove a potential inconsistency between AASB 1038 and AASB 10. Any changes in current practice will result from the application of the requirements of AASB 10 rather than these proposed amendments to AASB 1038.

Question 3

Comment on whether paragraph 4.1.2 of AASB 1038 should be retained:

Paragraph 4.1.2 relates to the classification of policyholder retained profits as a liability or equity. We believe this paragraph could be retained as it provides useful guidance in relation to the classification of policyholder retained profits and we believe is not inconsistent with any other Australian Accounting Standards or International Financial Reporting Standards.

Question 4

Comment on whether, overall, the proposals would result in financial statements that would be useful to users:

Since a life insurance entity is still required to apply the consolidation requirements of AASB 10 we believe the proposals will result in financial statements that are useful to users. Under the proposal, AASB 10 will be the sole source of consolidation requirements and we believe this will result in a consistent approach to consolidation across all types of entities, without differentiating life insurance entities.

If the requirements of AASB 10 allow the deconsolidation of specified groups of assets and liabilities (silos) of a life insurer we believe this will result in financial statements that would be beneficial to users because it presents a view of the relevant assets and liabilities of the entity which can generate future returns for the entity and its shareholders. The value of policyholder assets and liabilities can be significant in comparison the overall balance sheet of a life insurer and the inclusion of groups of assets and liabilities that are considered a deemed separate entity not controlled by the investor may detract from the overall usefulness of the financial information presented.

Question 5

Comment on whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a. not-for-profit entities; and
- b. public sector entities, including GAAP/GFS implications.

We do not have any comment in relation to regulatory issues, or other issues affecting not-for-profit entities or public sector entities.

Question 6

Comment on whether the proposals are in the best interests of the Australian economy:

It is our view that the proposals have the possibility to improve the usefulness of financial statements to users and this would be a benefit to the Australian economy. Further, by removing this Australian specific requirement, Australian Accounting Standards become more aligned with International Financial Reporting Standards and we support that outcome.

Question 7

Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative:

We believe the costs to implement the proposed changes are minimal for the NAB Group. The benefits include the potential for improving the usefulness of financial reporting to users and aligning Australian Accounting Standards with International Financial Reporting Standards.

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

7 August 2013

Invitation to comment on AASB Exposure Draft Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders (ED 241)

Dear Chairman

Ernst & Young Australia is pleased to provide comments on the AASB's Exposure Draft 241 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders. (the 'ED').

Overall, we support the proposal in ED 241 to remove the specific requirements in relation to consolidation from AASB 1038, which will leave AASB 10 as the sole source of consolidation requirement applicable to life insurer entities.

Our responses to the specific questions are provided in Appendix A to this letter.

We would be pleased to discuss our comments further with you. Please contact Lynda Tomkins (lynda.tomkins@au.ey.com), or (02) 9276 9605) if you wish to discuss any of the matters in this response.

Yours sincerely



Ernst & Young

APPENDIX A

SPECIFIC MATTERS FOR COMMENT

1. Whether the proposals in this Exposure Draft are supported;

We support the proposals in the ED.

2. Whether the amendments proposed in this Exposure Draft would result in a change from current practice, and, if so, why;

We believe that the proposed amendment may affect life insurers that have deemed separate entities within their business. Specifically the amendments will only affect a life insurer that offers pure investment linked products or have assets that are ring-fenced from the life insurer. However, there will be very few instances where life insurers will have deemed separate entities because most life insurers who offer investment linked or ring-fenced products, include portfolios that are protected by some form of guarantee. In practice it is unlikely that many life insurers will have to consider the issue of deemed separate entities.

3. Whether paragraph 4.1.2 of AASB 1038 should be retained;

We believe that paragraph 4.1.2 of AASB 1038 should be retained. This paragraph provides guidance specific to life insurers in relation to the classification of “policyholder retained profits” which is only relevant to life insurers.

4. Whether, overall, the proposals would result in financial statements that would be useful to users;

We believe that the proposals will clearly align Australian accounting standards to international financial reporting standards.

5. Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- a. Not-for-profit entities; and
- b. Public sector entities, including GAAP/GFS implications;

We are not aware of any significant regulatory or other issues that are likely to affect the implementation of the proposals contained in this ED.

6. Whether the proposals are in the best interest of the Australian economy; and

We believe that the proposals are in the best interests of the Australian economy.

7. Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We believe that additional costs that may be incurred by life insurers in the limited circumstances, discussed in our response to question 2, to comply with the proposed amendments will not outweigh the benefits to users of financial statements.

7 August 2013

Mr. Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007

Via email: standard@asb.gov.au

Dear Kevin

ED 241 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders

Thank you for the opportunity to comment on Exposure Draft (ED) 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*. CPA Australia and the Institute of Chartered Accountants in Australia (the Institute) have considered the ED and our comments are set out below.

CPA Australia and the Institute represent over 200,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We support the proposal to remove the consolidation requirements from AASB 1038 *Life Insurance Contracts*, including the explicit requirement for a life insurer to consolidate policyholders' interests. We believe that leaving the consolidation requirements in AASB 1038 has the potential to conflict with the requirements of AASB 10 *Consolidated Financial Statements* and therefore, adversely affect the capacity of those charged with the governance of Australian life insurers to make an unreserved statement of compliance with International Financial Reporting Standards (IFRS). We do not consider this possibility to be an acceptable outcome as compliance with IFRS is beneficial to many organisations, particularly listed entities and those with international interests.

In response to the other questions in the ED, we provide the following comments:

- We do not envisage a change in current practice as a result of the change to the standard, but that may depend on materiality and the legal determination of the nature of the policy holder funds for particular types of insurance. If a 'deemed separate entity' (in accordance with AASB 10) was found to exist, current practice would change as these would not be consolidated

Representatives of the Australian Accounting Profession



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Chartered Accountants
Australia

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- We see no issue in retaining the current paragraph 4.1.2 of the standard as it provides useful guidance on classification considerations between shareholder funds and policy holder funds.
- We consider the proposals to be in the best interests of Australia, as they seek to maintain IFRS compliance for life insurers
- We do not consider these proposals to have any significant regulatory impact amongst public sector entities or not-for-profit entities.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au

Yours sincerely



Alex Malley
Chief Executive
CPA Australia Ltd



Lee White
Chief Executive Officer
Institute of Chartered Accountants
Australia



07 August 2013

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Sir,

Response to the AASB's Exposure Draft (ED 241) *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*

This letter sets out the response from AMP Limited (AMP) to the Australian Accounting Standards Board's (AASB's) Exposure Draft (ED 241) *Amendments to AASB 1038 Life Insurance Contracts arising from AASB 10 Consolidated Financial Statements in relation to consolidation and interests of policyholders* dated May 2013.

It is AMP's view that it is appropriate to remove the consolidation requirements from AASB 1038 and leave AASB 10 as the sole source of consolidation requirements applicable to life insurer entities. Consequently, AMP supports this proposal.

The attached Appendix sets out AMP's responses to the specific questions for respondents included in ED 241.

AMP would like to thank the AASB for this opportunity to provide input on the changes proposed in the ED. We would appreciate any further opportunity to assist the AASB in further developing its final standard.

Further discussion

Please do not hesitate to contact either myself or Graham Duff on (02) 9257 6784 if you would like to discuss any of the matters in this document.

Yours faithfully

A handwritten signature in black ink, appearing to read 'L Mamelok'.

Lesley Mamelok
Head of Statutory Reporting

Appendix: Responses to specific matters for comment identified by the AASB

1) Whether the proposals in this Exposure Draft are supported;

AMP supports the proposals in this Exposure Draft because:

1- The proposals remove a potential inconsistency between standards

AASB 10 contains a revised definition of control and has specific requirements in relation to control of specified assets in deemed separate entities, which may apply to investment linked statutory funds of life insurers. This Exposure Draft removes the consolidation requirements from AASB 1038, including the explicit requirements for a life insurer to consolidate policyholders' interests, which could conflict with the requirements of AASB 10 in some circumstances. Therefore, the removal of these paragraphs would leave AASB 10 as the sole source of consolidation requirements applicable to life insurance entities and remove the potential conflict between the standards.

2- Australian specific standards are not necessary

We believe it is inappropriate to have Australian specific requirements for this matter, as there are no significant Australian specific circumstances which support divergence from the IFRS treatment.

2) Whether the amendments proposed in this Exposure Draft would result in a change from current practice, and, if so, why;

Where it is determined that an Australian life insurer encompasses a "deemed separate entity" (as defined in AASB 10), which is operated for the benefit of policyholders, the proposals allow the insurer not to consolidate the "deemed separate entity". If the proposals of ED 241 do not proceed the insurer would, in accordance with AASB 1038, still control the "deemed separate entity" and hence be required to consolidate it. This would result in non-compliance with IFRS (i.e. IAS 10).

3) Whether paragraph 4.1.2 of AASB 1038 should be retained;

AMP believes this paragraph should be retained because it does not contradict AASB 10 and it provides useful guidance on the classification of policyholders retained profits.

4) Whether, overall, the proposals would result in financial statements that would be useful to users;

The proposals eliminate a potential conflict between AASB 10 and AASB 1038 which, if not addressed, could result in non-compliance with IFRS by Australian life insurers in certain circumstances. We believe that removing those paragraphs from AASB 1038 would eliminate the potential inconsistency between AASB 10 and AASB 1038.

5) Whether there are any regulatory issues or other issues in the Australian environment that may affect the implementation of the proposals, particularly any issues in relation to:

- (a) Not-for-profit entities; and**
- (b) Public sector entities.**

We are not aware of any regulatory issues or other issues arising in the Australian environment that might affect the implementation of the proposals.

6) Whether the proposals are in the best interest of the Australian economy;

We believe these proposals are in the best interest of the Australian economy because they ensure that Australian life insurers are able to continue to comply with IFRS in the event that they encompass a "deemed separate entity" as defined in AASB 10.

- 7) Unless already provided in response to specific matters for comments 1- 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.**

It is our view that the key benefit of the proposals is to eliminate a potential conflict between AASB 10 and AASB 1038 which, if not addressed, could result in non-compliance with IFRS by Australian life insurers in certain circumstances.

We have not identified any significant costs of adopting the proposals.