



Australian Government  
Australian Accounting Standards Board

## Memorandum

<b>To:</b>	AASB members	<b>Date:</b>	9 October 2013
<b>From:</b>	Sue Lightfoot	<b>Agenda Item:</b>	10.1 (M134)
<b>Subject:</b>	Insurance Contracts – Update	<b>File:</b>	

### Action

Consider comment letters on AASB ED 244 (which incorporates IASB ED/2013/7) and comments from Roundtables held in Sydney and Melbourne/Auckland.

Finalise views on IASB ED/2013/7 *Insurance Contracts* for submission to the IASB.

### Attachments

Agenda paper 10.2 – Notes from Roundtables on ED 244 *Insurance Contracts*

Agenda paper 10.3 – Draft AASB comment letter on IASB ED/2013/7 *Insurance Contracts*

Agenda paper 10.4 – Submissions on ED 244

### Overview

- 1 The AASB issued [ED 244](#) *Insurance Contracts* on 27 June 2013. ED 244 incorporates the IASB's ED/2013/7 *Insurance Contracts*. Comments on ED 244 were due to the AASB by 27 September 2013 and comments are due to the IASB by 25 October 2013. IASB staff have provided an extension to permit submission of the AASB comment letter by 31 October 2013.
- 2 ED 244 was provided to the AASB as Agenda Paper 9.2 at the July 2013 Board meeting. The [IASB Snapshot](#) on Insurance Contracts was also provided as Agenda Paper 9.3.
- 3 ED/2013/7 *Insurance Contracts* is a revision of ED/2010/8 *Insurance Contracts*, issued in June 2010 (which was incorporated into the AASB's [ED 201](#)). The IASB has requested comments on the key areas it has changed as a result of feedback on ED/2010/8.
- 4 The staff have been in close contact over recent months with key constituents, seeking their views on the proposals. In addition, the following Roundtables took place to seek feedback from constituents on ED 244.

Location	Event	Date
Sydney	Roundtable with participation of IASB Board members and IASB staff via videoconference	3 September 2013 (4–6pm)
Melbourne and Auckland	Joint Roundtable via videoconference	12 September 2013 (9–11am)

- 5 Staff intend that the Board finalise its submission to the IASB on ED/2013/7 at the 23-24 October AASB meeting, with the benefit of feedback from comment letters received on ED 244 and comments received at the roundtables.

## Background

- 6 The model proposed in ED/2013/7 includes some significant differences from the model proposed in the IASB's ED/2010/8 *Insurance Contracts* and these are the main areas the IASB is seeking comment on. They include the following proposed requirements:
- (a) remeasurement of contractual service margins included in insurance liabilities;
  - (b) a measurement and presentation exception for contracts with a specified link between policyholder returns and returns on underlying items ('mirroring')
  - (c) presentation of insurance contract revenues and expenses (rather than net movements in those flows) in the income statement;
  - (d) presentation of the impact of changes in discount rates on insurance liabilities in other comprehensive income; and
  - (e) retrospective application on transition when it is practicable.

There are further proposals on which the IASB is not explicitly seeking comment that could have significant implications for Australian practice, including the proposals on 'contract boundary' and acquisition costs.

- 7 In preparation for the adoption of IFRS by a number of jurisdictions, including Australia, in 2005, the IASB introduced an interim standard (IFRS 4 *Insurance Contracts* – adopted as AASB 4 *Insurance Contracts* in Australia) until a more comprehensive review of the accounting for insurance contracts could be completed. Because IFRS 4/AASB 4 is an interim standard, it grandfathers much of the accounting practiced prior to adopting IFRS and therefore AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* (modified to be consistent with AASB 4) remain in force.
- 8 The proposed IFRS that emerges from ED/2013/7, if adopted in Australia, would be expected to replace the existing AASB 4, AASB 1023 and AASB 1038.