



Memorandum

To:	AASB and FRSB Members	Date:	7 October 2010
From:	Dean Ardern and Clive Brodie	Agenda Item:	B8.1
Subject:	IASB's Exposure Draft ED/2010/8 <i>Insurance Contracts</i>	File:	

Action

AASB and FRSB Members

Consider:

- (a) preliminary staff views on the proposals in the IASB's ED/2010/8 *Insurance Contracts* and identify potential issues to be included in the AASB's and/or the FRSB's submission to the IASB (see discussion below); and
- (b) whether to form a sub-committee of members of both Boards to assist in progressing the AASB's and/or the FRSB's submission out-of-session.

FRSB Members Only

Consider what approach the FRSB should take in relation to the AASB comment letter to the IASB on ED/2010/8. At its August 2010 meeting, the FRSB tentatively agreed to support the AASB's comment letter. The FRSB may wish to revisit that decision based on the October meeting discussions (see discussion below).

Background

AASB and FRSB Members

The IASB issued ED/2010/8 in late July 2010 and is seeking comments on the proposals by 30 November 2010. AASB ED 201 and the NZICA's Request for Comment on ED/2010/8 were issued in August 2010. The due date for comment to the AASB is 8 November 2010 and the due date for comment to the NZICA is 26 October 2010.

AASB staff presented a high-level comparison of the proposals in ED/2010/8 and existing Australian GAAP (which is largely the same as NZ GAAP) to the FRSB at its August 2010

meeting and to the AASB at its September 2010 meeting. The FRSB has made a number of tentative decisions regarding the IASB's proposals at its August 2010 meeting, which are contained in Appendix A of Agenda paper B8.2 to this meeting. The AASB has made no tentative decisions to date regarding the IASB's proposals.

To assist the Boards in considering the ED/2010/8 proposals, a roundtable discussion on the proposals will be held in Sydney, Melbourne and Auckland with constituents on 29 October 2010. The venue for the Sydney-based participants will be PricewaterhouseCooper's offices at 201 Sussex Street, Sydney. The venue for the Melbourne-based participants will be the AASB offices at 600 Bourke Street, Melbourne. The venue for the New Zealand-based participants will be the NZICA offices at Carlaw Park, 12-16 Nicholls Lane, Parnell, Auckland.

As the various venues have limited seating for constituents, staff have sought expressions of interest from constituents with relevant experience. At the time this memo was drafted, most of the seats available for participants and Board members at the Sydney and Melbourne venues had been filled and all of the seats available for participants and Board members at the Auckland venue had been filled. While teleconferencing has not been used for roundtable discussions previously, staff anticipate that the format of the discussions will follow those of previous events. Previous roundtable discussions have generally involved individual participants being responsible for leading the discussion on particular proposals or issues.

Considering the number of questions for comment the IASB has included in ED/2010/8, and the limited time available to discuss these questions during the joint meeting, unless the Boards decide otherwise, staff intend to:

- (a) firstly, focus on what they consider to be the main issues in the ED, which are the proposals regarding:
 - (i) risk adjustments, including the level of account for diversification benefits (IASB Questions 4 and 5: paragraphs 29-50 of Agenda paper B8.2 to this meeting);
 - (ii) residual margins (IASB Question 6: paragraphs 51-65 of Agenda paper B8.2);
 - (iii) premium allocation approach (IASB Question 8: paragraphs 70-75 of Agenda paper B8.2);
 - (iv) presentation, particularly the 'summarised margin' approach (IASB Question 13: paragraphs 105-117 of Agenda paper B8.2);

- (v) reinsurance (IASB Question 16: paragraphs 127-133 of Agenda paper B8.2); and
- (vi) transition (IASB Question 17: paragraphs 134-140 of Agenda paper B8.2); and
- (b) if time permits, deal with any other matters identified by AASB and FRSB members.

AASB and FRSB staff have been involved in preliminary discussions with representatives of some public sector/public benefit entities, including the New Zealand Accident Compensation Commission and the New Zealand Earthquake Commission, regarding the potential implications of the proposals in ED/2010/8 for these types of entities. Staff intend to hold discussions with a number of other public sector/public benefit entities in the near future, including the Victorian Transport Accident Commission. A summary of these discussions and staffs' findings will be presented to the Boards at a future meeting (or meetings).

FRSB Members Only

At its August 2010 meeting, the FRSB agreed that it would not develop its own comment letter on ED/2010/8 but would be likely to support the AASB's comment letter.

The FRSB is asked to consider what approach to take in its support of the AASB comment letter, that is to either:

- (a) co-sign the AASB comment letter; or
- (b) send a letter to the IASB immediately after the AASB submits its comment letter stating that the FRSB supports the AASB's views.

FRSB staff recommendation

FRSB staff recommends sending a letter to the IASB supporting the AASB's comment letter. Given the complexity of this project, it is likely that the AASB will finalise its letter near the end of the comment period. Staff are of the view that it will be easier to send a supporting letter immediately after the AASB has submitted its comments than to ensure that Joanna is available to approve her signature being attached to the AASB's comment letter.

Question for the FRSB Members

Does the FRSB agree with staff's recommendation?

Next steps

If the FRSB agrees with the staff recommendation, staff will draft a letter supporting the AASB comment letter for Joanna Perry to review and approve for submission to the IASB immediately after the AASB submits its comment letter.

AASB Members Only

AASB staff have held discussions with representatives from Marsh Australia regarding the disclosure proposals in ED/2010/8 and their potential implications for 'captive' insurers reporting under the Reduced Disclosure Regime. Presently, Marsh Australia provides various actuarial and administration services, including preparation of financial statements, for two Australian-based captive insurers. Based on discussions with APRA, staff understand that these captive insurers are the only two captives in Australia not currently in 'run-off'. A summary of these discussions and staffs' findings will be presented to the AASB at a future meeting.

Attachments

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| Agenda paper B8.2 | Staff analysis and preliminary views on the proposals in the IASB's Exposure Draft ED/2010/8 <i>Insurance Contracts</i> |
| Agenda paper B8.3 | Outline of IASB ED/2010/8 <i>Insurance Contracts</i> compared with AASB 1023 <i>General Insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i> (Please Note: this Agenda paper is ostensibly the same as Agenda paper B5.2 to the FRSB's August 2010 meeting and Agenda paper 15.2 to the AASB's September 2010 meeting) |
| Agenda paper B8.4 | Responses received by the AASB on ED 201 <i>Insurance Contracts</i> |

Copies of the AASB's ED 201 *Insurance Contracts* (which incorporates ED/2010/8) are available from the AASB website (www.aasb.gov.au) and copies of ED/2010/8 are available from the NZICA's website (www.nzica.com). Alternatively, members wanting a hard copy of ED 201 or ED/2010/8 should contact staff (dardern@aaasb.gov.au or clive.brodie@nzica.com).