



To:	AASB & FRSB members	Date:	13 August 2010
From:	Dean Ardern & Angus Thomson	Agenda Item:	15.1
Subject:	Insurance contracts	File:	--

Action

Note an outline of the proposals in the IASB's ED/2010/8 *Insurance Contracts* and key differences from existing Australian GAAP (which is largely the same as NZGAAP).

Consider the planned consultation process on ED/2010/8.

Identify issues that the Boards might raise in their submissions to the IASB and in contributing to the AOSSG submission to the IASB.

Background

The IASB issued ED/2010/8 *Insurance Contracts* in late July 2010 and the Boards each issued ED/2010/8 a few days later. AASB ED 201 *Insurance Contracts* incorporates ED/2010/8.

Comments on ED/2010/8 are due by 30 November 2010. The FRSB is seeking comments from New Zealand constituents by 26 October 2010 and the AASB is seeking comments from Australian constituents on ED 201 by 8 November 2010.

The attachment compares ED/2010/8 proposals with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. Appendix C *Life Insurance Activities* and Appendix D *Financial Reporting of Insurance Activities* to NZ IAS 4 *Insurance Contracts* are largely the same as AASB 1023 and AASB 1038.

At this stage, the comparison has been prepared from an Australian perspective – for example, there are references to the Australian *Life Insurance Act 1995* and to the circumstances of Australian health insurers, which may or may not align with conditions in New Zealand.

Constituent liaison

Roundtables were conducted in Melbourne and Sydney in 2007 for the IASB Discussion Paper on insurance with Warren McGregor and Peter Clark (the then IASB Insurance project manager) leading the discussion.

The IASB may consider holding one or more roundtables on ED/2010/8 in this region, depending on IASB member and IASB staff availability – AASB and FRSB staff would like to encourage that to happen.

AASB staff have recently attended Big 4 roundtables on ED/2010/8 and do not think that we should organise our own roundtables at this stage. Instead, staff plan to have face-to-face meetings with relevant constituents and also rely on comment letters from Australian and New Zealand constituents and discussions with the AASB's Insurance Project Advisory Panel.

It would be helpful if some members of both Boards could indicate their preparedness to be involved in the relevant face-to-face liaison.

AASB staff are also specifically targeting captive insurers and users of their financial statements for discussion about whether reduced disclosure requirements might be appropriate for them and, if so, the disclosures proposed in ED/2010/8 from which they might be exempted. This is on the basis that the AASB concluded in AASB 1053 *Application of Tiers of Australian Accounting Standards* that insurers would generally be publicly accountable (and subject to Tier 1 reporting), but that it may be appropriate to permit at least some captive insurers to apply Tier 2 requirements.

Developing the Boards' comment letters to the IASB

At this meeting (FRSB 26 August – AASB 1 and 2 September) it is planned to inform the Boards about the ED/2010/8 proposals and identify some of the issues that the Boards might raise in their submissions to the IASB.

At the joint meeting on 27 and 28 October, staff will present an issues paper incorporating constituent feedback that will highlight issues that staff consider should be addressed in the Boards' submissions to the IASB, together with the relevant reasoning. Staff plan to prepare draft submissions based on the discussion at the joint meeting and have them finalised out of session either through all members of each Board or through subcommittees.

Australia and New Zealand are members of the AOSSG Insurance Contracts Working Group (led by Korea and China). The issues and comments that emerge from developing our own submissions on ED/2020/8 will be contributed to the Working Group.

Some key issues

There are many similarities between the ED/2010/8 proposals and existing AGAAP / NZGAAP. Although we would not support proposals simply because they accord with our existing GAAP, staff consider that most of the proposals that are similar or the same as our GAAP are soundly based and result in useful information for users. These proposals include:

- * using discounted expected cash flows as the central measurement model for insurance liabilities [pages 3 and 4 of Agenda paper 15.2]; and
- * re-measurement of the risk margin [page 10 of Agenda paper 15.2].

There are also proposals that would be a change from our GAAP that the staff consider would be improvements, including: requiring (rather than just permitting) unbundling of contract components not closely related to insurance coverage [page 2 of Agenda paper 15.2]

There are proposals that staff consider would be retrograde steps, including: only reflecting the effects on the risk adjustment of diversification within a portfolio (as opposed to across portfolios) [page 7 of Agenda paper 15.2]

There are proposals about which staff have yet to form even a preliminary view and will need to undertake considerable further research and consultation, including:

- * the unit of account for determining the residual margin (that is part of insurance liabilities and prevents there being day-one gains) [page 4 of Agenda paper 15.2]
- * the impact of the proposed contract boundary (for example, in relation to Australian health insurers) [page 5 of Agenda paper 15.2]
- * measurement of the risk adjustment [page 6 of Agenda paper 15.2]
- * the notion of ‘incremental acquisition costs’ [page 7 of Agenda paper 15.2]
- * specifically permitting a day-one gain on reinsurance in some circumstances [page 9 of Agenda paper 15.2]
- * presentation and disclosure matters [pages 13 to 15 of Agenda paper 15.2]

Attachments

Outline of IASB ED/2010/8 *Insurance Contracts* compared with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* August 2010 – Agenda paper 15.2