

AASB Standard

AASB 2013-7

October 2013

Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders

[AASB 1038]



Australian Government

**Australian Accounting
Standards Board**

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ISSN 1036-4803

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Australian Accounting Standard AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders* is set out in paragraphs 1 – 8. All the paragraphs have equal authority.

PREFACE

Introduction

This Standard makes amendments to Australian Accounting Standard AASB 1038 *Life Insurance Contracts*.

These amendments arise from AASB 10 *Consolidated Financial Statements* in relation to consolidation and interests of policyholders.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2014 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Requirements

This Standard removes the specific requirements in relation to consolidation from AASB 1038 (in particular, paragraphs 1.1.1, 4.1, 4.1.1, and 4.2 – 4.2.2), which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities.

ACCOUNTING STANDARD AASB 2013-7

The Australian Accounting Standards Board makes Accounting Standard AASB 2013-7 *Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders* under section 334 of the *Corporations Act 2001*.

Dated 14 October 2013

Kevin M. Stevenson
Chair – AASB

ACCOUNTING STANDARD AASB 2013-7

AMENDMENTS TO AASB 1038 ARISING FROM AASB 10 IN RELATION TO CONSOLIDATION AND INTERESTS OF POLICYHOLDERS

Objective

- 1 The objective of this Standard is to remove the specific consolidation requirements from AASB 1038 *Life Insurance Contracts*, and thereby leave AASB 10 *Consolidated Financial Statements* as the sole source for consolidation requirements applicable to life insurer entities.

Application

- 2 **This Standard applies to each entity that is:**
 - (a) a life insurer; or
 - (b) the parent in a group that includes a life insurer;**when the entity:**
 - (c) is a reporting entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act*;
 - (d) is an other reporting entity and prepares general purpose financial statements; or
 - (e) prepares financial statements that are, or are held out to be, general purpose financial statements.

- 3 **This Standard applies to annual reporting periods beginning on or after 1 January 2014.**
- 4 **This Standard shall be applied when AASB 10 is applied. This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.**
- 5 **The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

Amendments to AASB 1038

- 6 The sub-heading above paragraph 4.1 is deleted and the heading above paragraph 4.1 is amended to read as follows:
- 4 **Equity in a Shareholder-Owned Life Insurer**
- 7 Paragraphs 1.1.1, 4.1 and 4.1.1 are deleted.
- 8 Paragraphs 4.2, 4.2.1 and 4.2.2 and the heading above paragraph 4.2 are deleted.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2013-7.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Standard. Individual Board members gave greater weight to some factors than to others.

Significant Issues

- BC2 In May 2011 the International Accounting Standards Board (IASB) issued IFRS 10 *Consolidated Financial Statements*¹ to replace the consolidation requirements in IAS 27 *Consolidated and Separate Financial Statements*.² IFRS 10 also incorporates the guidance contained in SIC-12 *Consolidation – Special Purpose Entities*.³ IFRS 12 *Disclosure of Interests in Other Entities*,⁴ also issued in May 2011, replaced the disclosure requirements in IAS 27 *Consolidated and Separate Financial Statements*.
- BC3 Paragraph 4.1 of AASB 1038 currently requires a life insurer to recognise in its financial statements the assets, liabilities, income, expenses and equity of the entity, whether they are designated as relating to policyholders or to shareholders. The rationale given in paragraph 4.1.1 of AASB 1038 for this requirement is that the interests of policyholders and shareholders are intertwined and form the basis of a single entity, with the boundaries of the entity defined by control.
- BC4 The consolidation requirements in AASB 1038 were originally written in the context of AASB 1024 *Consolidated Accounts* (1992). Those requirements were considered to be consistent with AASB 127 *Consolidated and Separate Financial Statements* when it was made in 2004 (and subsequent amendments to the consolidation requirements of AASB 127 thereafter). Accordingly, AASB 1038 was not amended as a consequence of the issue of the original or subsequent amendments to AASB 127.

1 Incorporated into AASB 10 *Consolidated Financial Statements*. (As a consequence of issuing AASB 10, in August 2011, the AASB issued AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* which made amendments to AASB 1038.)

2 Incorporated into AASB 127 *Consolidated and Separate Financial Statements*.

3 Incorporated into Interpretation 112 *Consolidation – Special Purpose Entities*.

4 Incorporated into AASB 12 *Disclosure of Interests in Other Entities*.

- BC5 Although the consolidation requirements in AASB 10 and AASB 127 are both based on the concept of ‘control’, AASB 10 contains a revised definition of control. AASB 10 also contains requirements in relation to portions of an investee that are ‘deemed separate entities’, and on whether an investor controls the deemed separate entities.
- BC6 The Board is aware of the view that, under AASB 10, it is conceivable there could be circumstances in which policyholder interests are not controlled by a life insurer. In particular, it is conceivable that a ‘deemed separate entity’ that would meet the description in AASB 10 (often called a ‘silo’) could exist as a result of the characteristics of some insurance contracts for which the life insurer entity would need to assess whether the deemed separate entity is controlled (see paragraphs B76 to B79 of AASB 10).
- BC7 The Board is also aware of concerns that removing the consolidation requirements from AASB 1038 could lead to diversity in practice. However, feedback to AASB ED 241 issued in May 2013 was supportive of the proposed amendments. Accordingly, the Board decided to issue this Standard to remove the explicit consolidation requirements in AASB 1038, thereby leaving AASB 10 as the sole source for consolidation requirements applicable to life insurer entities to avoid any potential conflict with AASB 10 – including in relation to the requirement relating to ‘uniform accounting policies for like transactions and other events in similar circumstances’ (see paragraph 19 of AASB 10). The amendments in this Standard are consistent with the Board’s policies of transaction neutral standards and of not issuing interpretations of IFRS (without first following the Interpretations Protocols).