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5 October 2010

Mr K Stevenson
The Chairman
Australian Accounting Standards Board
PO Box 204
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Dear Mr Stevenson

EXPOSURE DRAFT ED/2010/8 *INSURANCE CONTRACTS*

We wish to provide comments in relation to the scope exclusions and the definition of an insurance contract within the above exposure draft.

Scope exclusions

We support the Board's proposal to exclude from the scope of the proposed IFRS, fixed-fee service contracts which expose the service provider to risk because the level of service depends on an uncertain event. We also support the Board's view that accounting for these contracts as revenue contracts provides relevant information for users of the financial statements for the entities that issue such contracts and that changing the existing basis for accounting for these contracts would impose costs and disruption for no significant benefit.

Definition of an insurance contract

Based on our experience in applying the existing Australian Accounting Standard AASB 4 *Insurance Contracts* to our fixed fee service contracts, we wish to highlight an area in relation to the definition of an insurance contract which was interpreted differently amongst Australian constituents. Currently different outcomes can arise depending on the perspective taken when assessing if significant insurance risk has been transferred.

Determining whether a contract meets the definition of an insurance contract requires an assessment of whether there has been a transfer of significant insurance risk from the policyholder to the insurer. Our view is that this assessment should be considered from both the insurer's and policyholder's perspective, not just from the policyholder's perspective. There has been an alternative view put forward by some Australian constituents however that this should be assessed from only the policyholder's perspective.

The following example illustrates this issue: a contract that requires the insurer to make a payment conditional on an event that would cause a significant loss to the holder of the contract but does not cause the insurer to pay significant additional benefits in any scenario. The contract therefore, is not subject to significant levels of uncertainty in relation to the amount and timing of its cash flows.

Our view is the contract does not meet the definition of an insurance contract as the event does not cause the insurer to pay significant additional benefits in any scenario. Other Australian constituents however argued the contract meets the definition based on the fact the occurrence of an event would cause a significant loss to the holder of the contract. This view results in contracts which are not subject to significant levels of uncertainty in relation to the amount and timing of cash flows, being treated as insurance contracts.

To minimise the risk of differing interpretations and therefore improve the comparability, usefulness and relevance of financial statements, we recommend the definition of an insurance contract and/or the guidance section in the proposed IFRS be expanded to clarify whether the assessment of the significance of insurance risk transfer should take place from the policyholder's perspective or from both the insurer's and policyholder's perspective.

We would appreciate these comments being considered by the Australian Accounting Standards Board and, if necessary, we welcome the opportunity to discuss this matter more fully.

Respectfully submitted

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MANAGER EXTERNAL & FINANCIAL REPORTING