



Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

6 August 2013

Dear Mr Stevenson,

Invitation to comment on AASB Exposure Draft 241 Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders

We are responding to your invitation to comment on the above Exposure Draft (ED) on behalf of PwC.

We have read the exposure draft, along with the basis for conclusions, and welcome the AASB's proposal to remove the consolidation requirements from AASB 1038 *Life Insurance Contracts*, including the explicit requirement for a life insurer to consolidate policyholders' interests, and thereby leave AASB 10 *Consolidated Financial Statements* as the sole source of consolidation requirements applicable to life insurer entities.

We support the proposal to maintain principles-based Australian Accounting Standards and remove additional entity-specific requirements, as has been included in AASB 1038.

We agree with the Board that under AASB 10, it is conceivable there could be circumstances in which policyholder interests are not controlled by the life insurer. In practice we have not identified a current life insurance structure that would be deconsolidated in accordance with AASB 10.

However, a structure might exist that would meet the 'deemed separate entity' test and therefore should not be consolidated under AASB 10. In this scenario, it would be inappropriate for Australian-specific standards to require consolidation and lead to non-compliance with International Financial Reporting Standards ('IFRS'). In our view, there is no basis for a departure from IFRS for life insurer entities.

Our detailed responses to the specific questions of the ED are in Appendix A to this submission.

We would welcome the opportunity to elaborate on our views if you wish. Please contact Jan McCahey on (03) 8603 3868 or me on (02) 8266 7104 if you would like to have a discussion.

Yours sincerely,

A handwritten signature in blue ink that reads 'P. Shepherd'.

Paul Shepherd

Partner
Assurance

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Appendix A: Specific matters for comment

1. whether the proposals in this Exposure Draft are supported;

As outlined in the cover letter, we support the proposal to remove the consolidation requirements from AASB 1038 and leave AASB 10 as the sole source of consolidation guidance applicable to life insurer entities.

We agree with the Board that under AASB 10, it is conceivable there could be circumstances where a Life insurance structure meets the 'deemed separate entity' test and therefore should not be consolidated under AASB 10. In this scenario it would be inappropriate for Australian-specific standards to require consolidation and lead to non-compliance with International Financial Reporting Standards.

2. whether the amendments proposed in this Exposure Draft would result in a change from current practice, and, if so, why;

We do not believe the amendment will result in a change from current practice.

In our view, when applying the principles of control outlined in AASB 10 to typical Australian life insurance structures, particularly the guidance relating to a deemed separate entity, there are a number of barriers to deconsolidation. These barriers include provision of guarantees, mechanics of consolidated tax groups in the event of default, reimbursements of Statutory funds for operational incidents and mechanics of redemptions of unit linked investment contracts.

However, there could be, now or in the future, instances where a structure might meet the 'deemed separate entity' test and therefore should not be consolidated under AASB 10. We have discussed these instances with AASB staff.

We note in the Basis of Conclusions that the Board is aware of concerns that removing the consolidation requirements from AASB 1038 could lead to diversity in practice. We do not share this concern. The Board has adopted the principles in AASB 10 acknowledging that judgement is required in its application.

3. whether paragraph 4.1.2 of AASB 1038 should be retained;

We support removing paragraph 4.1.2. Whilst it does give specific guidance in relation to the classification as liability or equity of retained profits in a friendly society, the appropriate classification can be derived from AASB 132 *Financial Instruments: Presentation* without need for further guidance.

4. whether, overall, the proposals would result in financial statements that would be useful to users;

AASB 10 requires consolidated financial statements to be prepared using uniform accounting policies for like transactions and other events in similar circumstances. The Board has committed to developing a financial reporting framework based on clear principles, where the financial reporting of transactions and other events is designed to reflect their economic substance. The resulting financial information will be more relevant and useful to users. Furthermore, AASB 12 would require detailed disclosures in the event that a deemed separate entity is not consolidated.



- 5. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

(a) not-for-profit entities; and

(b) public sector entities, including GAAP/GFS implications;

We are not aware of any specific regulatory or other issues arising in the Australian environment in respect of the abovementioned entities that should be considered as part of the proposals.

- 6. whether the proposals are in the best interests of the Australian economy;**

We refer to the AASB's policies and processes relating to the international standard setting process, where the AASB acknowledges 'in the interests of developing a single set of high-quality accounting standards for international use there is a presumption that the IFRSs should be adopted for use in Australia unless to do so would not be in the best interests of the Australian economy.' We do not consider there is a need to maintain the separate considerations around control specific to AASB 1038. Removing the consolidation requirements in AASB 1038 will leave AASB 10 as the sole source of guidance in respect of consolidation. This will ensure that, in respect of the control assessment for Australian life insurance structures, Australian Accounting Standards will be consistent with International Financial Reporting Standards.

- 7. unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or nonfinancial) or qualitative.**

Our analysis of the costs and benefits of the proposed amendment to AASB 1038 is outlined above. The proposed amendments will ensure that, in respect of the control assessment of Australian life insurance structures, Australian Accounting Standards will be consistent with International Financial Reporting Standards.