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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

To the Chairman of the Board

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

We are pleased to have the opportunity to provide our comments on Exposure Draft 241 *Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders*. Our comments on the specific questions in the exposure draft are addressed in the Appendix.

National Australia Bank is one of the four major banks in Australia. Our operations are predominantly based in Australia, New Zealand, the United Kingdom, the United States and Asia. In our most recent annual results we reported net profit after tax of \$4.1 billion and total assets of \$763 billion. Through our wealth management division, we provide investment, superannuation and insurance solutions to corporate and institutional customers. As at 30 September 2012 the group's life insurance entity (MLC Limited) had investment assets totalling more than \$60 billion and policy liabilities of \$57 billion.

In general we support the proposal to remove the consolidation requirements from AASB 1038, including the explicit requirement for a life insurer to consolidate policyholders' interests. We support the view that AASB 10 should be the sole source of consolidation requirements for life insurers and their parent entities.

We note that the proposed application date of the proposals is for annual reporting periods beginning on or after 1 January 2014, but early adoption is permitted for annual reporting periods beginning on or after 1 January 2005. In our view it would be beneficial if the proposal was finalised in time to allow early adoption of the amendments in the same financial period as the application of AASB 10 (annual reporting periods beginning on or after 1 January 2013).

Should you have any queries regarding our comments please do not hesitate to contact Marc Smit, Head of Group Accounting Policy at marc.smit@nab.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "S Gallagher", with a long horizontal stroke extending to the right.

Stephen Gallagher
General Manager, Group Finance

Appendix – Specific Matters for Comment

Question 1

Comment on whether the proposals in the Exposure Draft are supported:

We support the proposal to remove the consolidation requirements from AASB 1038, including the explicit requirement for a life insurer to consolidate policyholders' interests. We also support the view that AASB 10 should be the sole source of consolidation requirements for life insurers and their parent entities.

We believe it is beneficial to remove the potential conflicting consolidation requirements that currently exist between AASB 1038 and AASB 10.

Question 2

Comment on whether the amendments in the Exposure Draft would result in a change from current practice, and if so, why:

We believe the amendments in the Exposure Draft remove a potential inconsistency between AASB 1038 and AASB 10. Any changes in current practice will result from the application of the requirements of AASB 10 rather than these proposed amendments to AASB 1038.

Question 3

Comment on whether paragraph 4.1.2 of AASB 1038 should be retained:

Paragraph 4.1.2 relates to the classification of policyholder retained profits as a liability or equity. We believe this paragraph could be retained as it provides useful guidance in relation to the classification of policyholder retained profits and we believe is not inconsistent with any other Australian Accounting Standards or International Financial Reporting Standards.

Question 4

Comment on whether, overall, the proposals would result in financial statements that would be useful to users:

Since a life insurance entity is still required to apply the consolidation requirements of AASB 10 we believe the proposals will result in financial statements that are useful to users. Under the proposal, AASB 10 will be the sole source of consolidation requirements and we believe this will result in a consistent approach to consolidation across all types of entities, without differentiating life insurance entities.

If the requirements of AASB 10 allow the deconsolidation of specified groups of assets and liabilities (silos) of a life insurer we believe this will result in financial statements that would be beneficial to users because it presents a view of the relevant assets and liabilities of the entity which can generate future returns for the entity and its shareholders. The value of policyholder assets and liabilities can be significant in comparison the overall balance sheet of a life insurer and the inclusion of groups of assets and liabilities that are considered a deemed separate entity not controlled by the investor may detract from the overall usefulness of the financial information presented.

Question 5

Comment on 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 do not have any comment in relation to regulatory issues, or other issues affecting not-for-profit entities or public sector entities.

Question 6

Comment on whether the proposals are in the best interests of the Australian economy:

It is our view that the proposals have the possibility to improve the usefulness of financial statements to users and this would be a benefit to the Australian economy. Further, by removing this Australian specific requirement, Australian Accounting Standards become more aligned with International Financial Reporting Standards and we support that outcome.

Question 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 non-financial) or qualitative:

We believe the costs to implement the proposed changes are minimal for the NAB Group. The benefits include the potential for improving the usefulness of financial reporting to users and aligning Australian Accounting Standards with International Financial Reporting Standards.

