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16 February 2016

Ms Kris Peach
Chair and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Ms Peach

Exposure Draft ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Suncorp Group (Suncorp) acknowledges your submission to the International Accounting Standards Board (IASB) with respect to Exposure Draft ED/2015/11 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Classification of Liabilities*.

We support your view raised with respect to concerns over the current criteria for the predominance assessment in applying the temporary exemption. We agree that it will prevent entities like ourselves which have a mix of businesses from being able to apply the temporary exemption.

As outlined in our submission (refer attached), Insurance is our predominant business but we would not be eligible for the temporary exemption under the current proposed criteria due to our non insurance segment liabilities.

We are also pleased to note that you raised the fact that financial statement users are already able to cope with different measurement bases being applied to financial assets that are used in different businesses within a group. We agree that the temporary exemption should be available for financial assets that are designated as relating to contracts within the scope of IFRS 4. We note your concern about the possibility of entities deferring the application of IFRS 9 to banking activities and we agree and intend to apply IFRS 9 to our banking operations.

We would appreciate any support that you could provide directly to the IASB.

Yours sincerely

Stephen Burton
EGM Group Performance Management & Financial Control

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5 February 2016

Mr H Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London, United Kingdom EC4M 6XH

Dear Mr Hoogervorst

Exposure Draft ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Suncorp Group (Suncorp) appreciates the opportunity to comment on Exposure Draft ED/2015/11 '*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'* (ED). We recognise the importance of addressing the concerns with regard to the application of IFRS 9 prior to release of the new Insurance contracts standard to ensure financial statements remain relevant and comparable across the Insurance industry.

Suncorp is one of the largest General Insurers in Australia by Gross Written Premium, the largest provider of personal injury and Compulsory Third Party (CTP) insurance in Australia, and second largest general insurance company in New Zealand. Suncorp is a top 20 Australian Securities Exchange (ASX) listed entity, offering general insurance, life insurance, superannuation and banking services. Suncorp consolidated profit after tax was AUD 1.1 billion for the year ended 30 June 2015 and total assets of AUD 96 billion as at 30 June 2015. Suncorp has more than nine million customers.

Suncorp Group Limited (SGL) is the non operating holding company of Suncorp's subsidiaries and its interests in associates and jointly controlled entities. SGL's general and life Insurance businesses contribute more than 75% to total net profit after tax (Appendix 1). SGL is regulated by the Australian Prudential Regulation Authority (APRA) as an approved general insurance regulated entity.

We are supportive of the principal of allowing a temporary exemption from applying IFRS 9 *'Financial Instruments'* (IFRS 9) for entities affected by the different application dates of IFRS 9 and the proposed Insurance Contracts Standard. However, we have significant concerns with the proposed determination of predominant activity in assessing eligibility to apply the temporary exemption as outlined below.

Predominant activity based on Insurance contract liabilities only

Application of the ED for the purposes of preparation of the SGL Consolidated Financial Statements in relation to the determination of predominant insurance activity based on insurance contract liabilities for Suncorp and of its major competitors is as follows:

	SGL Consolidated Jun-15 $M	Australian Competitor 1 Jun-15 $M	Australian Competitor 2 Dec-14 $M	Australian Competitor 3 Dec-14 $M
Insurance contract liabilities	20,630	18,843	91,383	27,778
Other liabilities	61,503	5,541	35,087	6,140
Total liabilities	82,133	24,384	126,470	33,918
% Insurance contract liabilities to Total liabilities	25%	77%	72%	82%

As a result of the Suncorp Banking operations (a segment of Suncorp) being included in other liabilities definition (i.e. includes bank deposits and borrowings, bank debt issues and securitisation liabilities that total $57bn), based on the above analysis our major competitors would have favourable advantage of being able to apply the temporary exemption despite Suncorp's results and operations being substantially insurance (general insurance and life insurance). Hence, the definition of predominant activity purely based on Insurance contract liabilities is not reflective of Suncorp's actual operations and the external market view of Suncorp.

The consequences of this are as follows:

<u>SGL Consolidated Financial Statements</u>

Applying the ED would result in SGL applying IFRS 9 to its consolidated financial statements in contrast to our competitors which may wish to continue to apply IAS 39 '*Financial Instruments: Recognition and Measurement*'. This would place Suncorp at a significant competitive disadvantage to our competitors.

Furthermore our general and life insurance subsidiaries would continue to apply IAS 39. This would result in two sets of numbers being reported across our Insurance operations which would result in additional costs and resources being incurred compared to our competitors. Due to the significant size of the general insurance and life insurance operations, our statutory financial statements are provided to many external stakeholders as outlined below.

<u>Comparability of financial statements</u>

Suncorp being a top 20 ASX listed entity has many users of the SGL Consolidated Financial Statements:

- Domestic and International Investors
- Investment Analysts and Advisers
- Regulatory Authorities (e.g. Australian Prudential Regulation Authority, Australian Securities and Investments Commission, Australian Taxation Office)
- Rating Agencies (e.g. Standard & Poor's, Moody's and Fitch),
- External Borrowers
- other stakeholders

These stakeholders would find it extremely difficult in the above scenario to compare our SGL Consolidated Financial Statements to those of our competitors. It would create unnecessary complexities and create confusion amongst users in understanding the differences amongst different sets of financial statements and external market Investor and Analyst Pack presentations.

We agree with the International Accounting Standards Board (IASB) intention to ensure IFRS 9 is applied by entities on application date and we will apply IFRS 9 to Suncorp Metway Limited (SML), the listed company of our banking operations, and application of the banking operations under IFRS 9 for SGL Consolidated Financial Statements.

We disagree however with having to apply IFRS 9 in the SGL Consolidated Financial Statements which are predominately insurance operations whilst our insurance competitors may continue to apply IAS 39 under the temporary exemption.

In accordance with AASB 8 '*Operating Segments*' (i.e. IFRS 8 *"Operating Segments'*), four (i.e. Personal Insurance, Commercial Insurance, Vero NZ Insurance and Life Insurance) of the five operating segments are insurance operations based on review of the Aggregation criteria and Quantitative thresholds as outlined in the accounting standard.

We wish to apply both IFRS 9 and the proposed new Insurance Contracts standard at the same application date when preparing the SGL Consolidated Financial Statements and the individual insurance entity financial statements (i.e. both general insurance and life insurance statutory entities).

Recommended other Predominant activity definition measures

We recommend a number of other measures are considered in addition to the proposed liabilities test in determining predominance as follows:

- Insurance Net Profit after Tax relative to Group Net Profit after Tax
- Insurance Income relative to Total Income
- Insurance Full Time equivalents employees (FTEs) relative to total FTEs
- Insurance operating expenses relative to total operating expenses
- Entities which are regulated as an Insurance entity

Analysis on the application of the first four measures listed above on SGL is outlined in Appendix 1.

This issue is of significant concern to Suncorp as this will result in greater profit and loss volatility (as disclosed in the Income Statement) and unfavourable comparability of our financial information and results relative to our insurance competitors.

The basis of preparation of our regulatory returns will become extremely difficult as they will be prepared on an inconsistent basis both at the consolidated and individual reporting entity level.

Inconsistencies would also be reported in our tax balances as different tax treatment may be required in SGL, the head entity in our tax consolidated group, compared to our individual reporting entities.

We would respectfully request that our comments on the Exposure Draft, as contained in this correspondence, be taken into account in setting the standard.

If you have any questions on our comments, please do not hesitate to contact Stephen Burton (Executive General Manager, Group Performance Management and Financial Control) on +61 07 3135 2509.

Yours sincerely

Steve Johnston
Group Chief Financial Officer

One Company Many Brands SUNCORP GROUP

Appendix 1 – Recommended other Predominant activity definition measures

1. Net Profit after Tax (NPAT)

SGL's business segments and their contribution to NPAT are as follows:

	Suncorp General Insurance Jun-15 AUD $M	Suncorp Life Insurance Jun-15 AUD $M	Suncorp Total Insurance Jun-15 AUD $M	Suncorp Bank Jun-15 AUD $M	Other Jun-15 AUD $M	SGL Jun-15 AUD $M
Net profit after tax	756	125	881	354	-102	1,133
% NPAT Contribution	**67%**	**11%**	**78%**			

2. Insurance Income

Insurance income relative to Total income for SGL consolidated:

	Suncorp General Insurance Jun-15 AUD $M	Suncorp Life Insurance Jun-15 AUD $M	Suncorp Total Insurance Jun-15 AUD $M	Suncorp Bank Jun-15 AUD $M	Other Jun-15 AUD $M	SGL Jun-15 AUD $M
Income	11,651	2,072	13,723	3,081	67	16,871
% Insurance income to total income	***69%***	***12%***	**81%**			

3. Insurance FTEs

Insurance FTEs relative to Total FTEs for SGL consolidated:

	Suncorp General Insurance Jun-15 Total FTE	Suncorp Life Insurance Jun-15 Total FTE	Suncorp Total Insurance Jun-15 AUD $M	Suncorp Bank Jun-15 Total FTE	Other Jun-15 Total FTE	SGL Jun-15 Total FTE
Total Insurance FTEs	9,180	1,196	10,375	3,468	-	13,843
% Insurance FTES to Total FTEs	***66%***	***9%***	***75%***			

4. Insurance operating expenses

Insurance operating expenses relative to Total operating expenses for SGL consolidated:

	Suncorp General Insurance Jun-15 AUD $M	Suncorp Life Insurance Jun-15 AUD $M	Suncorp Total Insurance Jun-15 AUD $M	Suncorp Bank Jun-15 AUD $M	Other Jun-15 AUD $M	SGL Jun-15 AUD $M
Total expenses	1,714	288	2,002	665	-	2,667
% Insurance expenses to total expenses	***64%***	***11%***	***75%***			

Appendix 2 – Responses to Exposure Draft ED/2015/11

Exposure Draft ED/2015/11 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Questions for respondents

Question 1—Addressing the concerns raised

Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard:

(a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16).

(b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraph BC17–BC18).

(c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (paragraphs BC19–BC21).

The proposals in this Exposure Draft are designed to address these concerns.

Do you agree that the IASB should seek to address these concerns? Why or why not?

Suncorp comments:

Yes. We agree these concerns should be addressed to ensure all substantial insurance businesses which apply IFRS 4 are not impacted by increased volatility due to the different effective dates of IFRS 9 and the new insurance contracts standard.

Question 2— Proposing both an overlay approach and a temporary exemption from applying IFRS 9

The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4:

(a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets that:

(i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but

(ii) would not have been so measured applying IAS 39 (the 'overlay approach') (see paragraphs BC24–BC25);

(b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the 'temporary exemption from applying IFRS 9') (see paragraphs BC26–BC31).

Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not?

If you consider that only one of the proposed amendments is needed, please explain which and why.

Suncorp comments:

Overall we agree there should be both an overlay approach and a temporary exemption from applying IFRS 9. The temporary exemption should be aimed at those entities that are significantly affected by the different effective dates.

An important amendment is required to ensure comparability and consistency between financial statement preparers. The amendment we suggest is in relation to the proposed determination of predominant activity.

The current measure of considering insurance contract liabilities relative to total liabilities disadvantages those entities which have other large liabilities on the balance sheet. Effectively large insurance businesses with other lines of business are ruled out under the ED (Exposure Draft) from applying the temporary exemption. This is in contrast to Insurance only businesses which have the option of applying the temporary exemption and deferring IFRS 9.

This will result in inconsistencies in profit and loss volatility (as disclosed in the Income Statement) across entities in the Insurance industry. The overlay approach only applies to certain financial assets whereas the temporary exemption applies to all financial assets.

Suncorp's preference has been to apply the proposed new Insurance Contracts standard and IFRS 9 Financial Instruments at the same application date for both the SGL Consolidated Financial Statements and individual insurance entity financial statements.

The overlay approach is also more cumbersome on preparers as it requires entities to effectively maintain amounts under both IFRS 9 and IAS 39.

Question 3— The overlay approach

Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach.

(a) Paragraphs 35B and BC35–BC43 describe the assets to which the overlay approach can be applied. Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why?

Suncorp comments:

Yes we agree applying the overlay approach to these financial assets would limit volatility in the profit and loss from applying IFRS 9 prior to application of the new Insurance contracts standard.

(b) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income applying the overlay approach. Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why?

Suncorp comments:

Yes we agree with the proposed approach to presentation. No further comments.

(c) Do you have any further comments on the overlay approach?

Suncorp comments:

No we do not have any further comments in relation to the overlay approach.

Question 4—The temporary exemption from applying IFRS 9

As described in paragraphs 20A and BC58–BC60 the Exposure Draft proposes that only entities whose predominant activity is issuing contracts within the scope of IFRS 4 can qualify for the temporary exemption from applying IFRS 9.

(a) Do you agree that eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity's predominant activity is issuing contracts within the scope of IFRS 4? Why or why not? If not, what do you propose instead and why?

Suncorp comments:

Entities that issue a significant number of insurance contracts within the scope of IFRS 4 should be eligible for the temporary exemption. These are the entities that will be most impacted through volatility in profit or loss by having to apply IFRS 9 prior to the application of the new Insurance contracts standard.

As described in paragraphs 20C and BC62–BC66, the Exposure Draft proposes that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities (including liabilities arising from contracts within the scope of IFRS 4).

(b) Do you agree that an entity should assess its predominant activity in this way?

Why or why not? If you believe predominance should be assessed differently, please describe the approach you would propose and why.

Suncorp comments:

No we do not agree in assessing predominant activity by comparing insurance contract liabilities to total liabilities. This measure disadvantages conglomerates which engage predominately in insurance activities but also engage in other activities. These entities may be significantly affected by the different effective dates of IFRS 9 and the new Insurance contracts standard but under the proposed approach may not be eligible for the temporary exemption.

This would also create inconsistencies for users of financial statements when making comparisons across the industry.

Our approach would be to expand the predominance assessment to include a range of measures of which one or more needs to be achieved. Insurance contract liabilities relative to total liabilities would be one measure.

As outlined earlier in our submission we recommend a number of other measures are considered in addition to the proposed liabilities test in determining predominance as follows:

- *Insurance Net Profit after Tax relative to Group Net Profit after Tax*
- *Insurance Income relative to Total Income*
- *Insurance Full Time equivalents employees (FTEs) relative to total FTEs*
- *Insurance operating expenses relative to total operating expenses*
- *Entities which are regulated as an Insurance entity*

Analysis on the application of the first four measures on SGL is outlined in Appendix 1.

Please refer to our cover letter for a summary of the impact on Suncorp Group versus major competitors of measuring predominance based on carrying amount of liabilities relative to total liabilities.

Paragraphs BC55–BC57 explain the IASB's proposal that an entity would assess the predominant activity of the reporting entity as a whole (ie assessment at the reporting entity level).

(c) Do you agree with the proposal that an entity would assess its predominant activity at the reporting entity level? Why or why not? If not, what do you propose instead and why?

Suncorp comments:

We agree predominant activity should be assessed at the reporting entity level. Assessing predominance below the reporting entity level may lead to an inconsistent application of measuring financial assets at the consolidated group level.

It would also make the financial statements more difficult for users to understand.

Question 5—Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?

As explained in paragraphs BC78–BC81, the Exposure Draft proposes that both the overlay approach and the temporary exemption from applying IFRS 9 would be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied.

(a) Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional? Why or why not?

Suncorp comments:

Yes we agree that the overlay approach and the temporary exemption should be optional. The option chosen will be dependent on the specific circumstances of the entity.

(b) Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

Suncorp comments:

Yes we agree. No further comments.

Question 6—Expiry date for the temporary exemption from applying IFRS 9

Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021.

Do you agree that the temporary exemption should have an expiry date? Why or why not?

Suncorp comments:

We do not agree the temporary exemption should have a specified expiry date. The temporary exemption should expire at the commencement of the application of the new Insurance contracts standard. The purpose of the exemption is to minimise volatility in the profit and loss for those entities which are significantly affected by the different effective dates of IFRS 9 and the new Insurance contracts standard.

Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expiry date would you propose and why?

Suncorp comments:

No further comments. Please see response to question 6 above.

It is important that the IASB finalise the proposed new Insurance Contracts accounting standard in a timely manner to ensure that IFRS 9 is implemented accordingly for insurance reporting entities.