



30 November 2005

The Chairman,  
Australian Accounting Standards Board  
PO Box 204  
Collins St West, Vic 8007

Dear Sir,

**Re: Invitation to Comment – “Policyholder Equity” of Friendly Societies**

We are pleased to submit our views in response to your invitation to comment on the proposed amendments to AASB 1038, which are intended to acknowledge that friendly societies may have an unallocated surplus that represents ‘policyholder equity’.

Overall we are in agreement with the intention of the proposed amendments, although we do have some concerns in relation to ‘allocations’ and ‘distributions’ as discussed below. We believe the crux of the amendments is embodied in the final paragraph of the background information, being that:

*“The rules of some friendly society benefit funds may allow that surpluses within the fund may alternatively be allocated or distributed to:*

- the members (i.e. policyholders) of the approved benefit fund;*
- the management fund; or*
- another benefit fund of the society.*

*Until such time as a distribution is made, this surplus remains unallocated and hence has a similar nature to the ‘policyholder equity’ in life companies operating in some overseas markets.”*

This intention is clearly expounded in the background to the invitation to comment, but we are concerned that the proposed amendments to the wording of AASB 1038, in isolation, may not convey the same clear intention when considering the unique nature of friendly societies and recognising that the title of the standard under which the amendments are being made is specifically ‘Life Insurance Contracts’. We see advantage in a separate section of the standard addressing the specific and unique issues of surpluses held by friendly society benefit funds, or at least the addition of guidance to the standard that should incorporate the issues as outlined in the background section of the invitation to comment.

We hold the view that a primary factor in evaluating the status of any unallocated surplus that exists in any friendly society benefit fund should be the rules of that benefit fund. The proposed amendments to AASB 1038 make no reference to the rules of the particular benefit fund in question; albeit that the rules are referred to in the background section of the invitation to comment document. The standard refers to ‘allocation’ and ‘distribution’ of surpluses in particular contexts; however we believe it should also acknowledge that if the rules of the benefit fund are such that all surpluses, by default, are for the benefit of the policyholders, such surpluses should be classified as policyholder liability. This should apply irrespective of whether an actual distribution to individual policyholder accounts has been made.

We also believe that section 17.5.4(b) requires clarification, particularly in respect of the sentence that states:

“The issuer may split that feature into liability and equity components...”

The implied discretion in this section appears to be inconsistent with the rest of the standard.

We would be pleased to discuss our comments further with you. Please contact Helen Hutchison on (03) 8614 4513 or Mark Blackburn on (03) 8614 4757 should you wish to discuss our comments.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Mark Blackburn', with a large circular flourish at the end.

Mark Blackburn  
Chief Financial Officer

**IOOF HOLDINGS LTD**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 30 DECEMBER 2005**

	<u>Notes</u>	<u>Consolidated</u>		<u>Consolidated</u> <u>(excl. Benefit Funds)</u> <sup>(a)</sup>	
		<u>Half year ended</u>		<u>Half year ended</u>	
		<u>31 December</u>	<u>31 December</u>	<u>31 December</u>	<u>31 December</u>
		<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
		<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Revenue	2	99	99	99	99
Expenses, excluding finance costs expense	3	99	99	99	99
Finance costs expense	3	99	99	99	99
Share of Net Profits of associates	2	99	99	99	99
<b>Profit before income tax</b>		99	99	99	99
Income tax (expense)/benefit	4	99	99	99	99
<b>Profit for the period</b>		99	99	99	99
(Profit) / loss attributable to minority interest	19	99	99	99	99
<b>Profit attributable to members of the parent</b>	18	99	99	99	99
		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share	21	99.00	99.00		

<sup>(a)</sup> The Group is required to consolidate certain benefit funds that it controls; in accordance with AASB 127 *Consolidated and Separate Financial Statements*. Supplementary information has been provided in these financial statements that excludes these benefit funds from the consolidated entity. This supplementary information enables analysis of the financial position and performance of the Group excluding the benefit fund's transactions with, and on behalf of its members, and allows comparison with other entities in the funds management business.

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