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Australian Accounting Standards Board

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

IASB Tentative Decision – Insurance Contracts

The AASB has asked me to write to you concerning one of the tentative decisions made by the IASB (published in the March 2014 IASB Update) in relation to Exposure Draft ED/2013/7 *Insurance Contracts*.

The AASB supports all of the tentative decisions[1] made by the IASB at its March 2014 meeting in relation to Insurance Contracts, except for the way in which it is proposed to require disclosure of the effects of changes in discount rates.

The AASB strongly supports the IASB's tentative decision to permit entities to choose to present the effect of changes in discount rates in profit or loss or in other comprehensive income. The AASB believes this will help facilitate progress towards a comprehensive IFRS for insurance contracts as well as helping to avoid significant systems costs for entities managing on a current basis.

However, the AASB has concerns about the tentative decision to require an entity to disclose the difference between the present value of changes in expected cash flows that adjust the contractual service margin in a reporting period when measured using discount rates that applied on initial recognition of insurance contracts, and the present value of changes in expected cash flows that adjust the contractual service margin when measured at current rates, for all portfolios of insurance contracts. The AASB considers this decision would be a major barrier to progress on a comprehensive IFRS on insurance contracts due to the operational problems it raises and for conceptual reasons.

Firstly, from an operational perspective, entities would need to track the discount rate from inception of insurance contracts to determine the amount(s) to be disclosed to meet this requirement. Systems and processes would therefore need to be in place to identify and track discount rates from contract inception for the life of a policy or claims liability, which could be up to 60 years. To do this, entities would need to adopt arbitrary units of account (cohorts of policies) to track discount rates to make systems costs manageable. Insurers are likely to have hundreds, and possibly tens of thousands, of cohorts of contracts to track and different entities are likely to come to different pragmatic solutions that are hardly conducive to

1 The AASB notes that the IASB tentative decisions to date apply only to nonparticipating contracts.

comparability. I note that a considerable number respondents to ED/2013/7 raised these operational issues.

Furthermore, it is not clear whether the disclosure is intended to be in aggregate or by portfolio. Paragraph 71 of ED/2013/7 proposed the following:

71 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. The entity shall aggregate or disaggregate information so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or by the aggregation of items that have different characteristics.

Different entities may therefore reach different conclusions on the level of disaggregation of the disclosure, hampering comparability, unless the IASB provides clear guidance as to the extent of detail required.

Secondly, from a conceptual perspective, the AASB is concerned that such disclosure is inconsistent with the recognition and measurement accounting policy of an entity that chooses to recognise the amount in profit or loss. The AASB does not see a purpose in tracking all historical movements in discount rates when entities are managing their investments and exposures on a current basis.

However, some Australian insurers show the impact of discount rate movements based on the current value measurements at the beginning and end of the reporting period, either outside their IFRS financial statements (in analyst briefing materials) or by having profit subtotals before and after the discount rate impact (consistent with paragraph 85 of IAS 1 *Presentation of Financial Statements*). We do accept that knowing why values have shifted in the current period is important when managing investments and exposures on a current basis, but that does not require tracking rates from origin, possibly over many decades and for many cohorts of policies. Our view is that the disclosure would be costly and without discernible benefit.

The AASB recommends that the IASB reconsiders this tentative decision on disclosure at a later stage in its redeliberations to take into account the points raised above.

If you have any questions on the comments above, please contact me or Sue Lightfoot (slightfoot@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M. Stevenson
Chairman and CEO