Compiled AASB Standard **AASB 1038**

Life Insurance Contracts

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2020 but before 1 January 2021. Earlier application is permitted for annual reporting periods beginning on or after 24 July 2014 but before 1 January 2020. It incorporates relevant amendments made up to and including 21 May 2019.

Prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board.

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Australian Accounting Standard AASB 1038 *Life Insurance Contracts* (as amended) is set out in paragraphs 1.1 – 20.2 and the Appendix. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 1038 is to be read in the context of other Australian Accounting Standards including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with IFRS 4

AASB 1038 *Life Insurance Contracts* as amended incorporates the limited improvements to accounting for insurance contracts required by IFRS 4 *Insurance Contracts* as issued and amended by the International Accounting Standards Board (IASB).

Life insurers applying this Standard and Australian Accounting Standards will be compliant with IFRS Standards.

IFRS 4 is implemented in Australia using three Accounting Standards:

(a) AASB 4 *Insurance Contracts* (the Australian equivalent to IFRS 4), which applies to fixed-fee service contracts that meet the definition of an insurance contract;

(b) AASB 1023 *General Insurance Contracts*, which applies to general insurance contracts; and

(c) AASB 1038, which applies to life insurance contracts.

IFRS 4 applies to all insurance contracts and financial instruments with discretionary participation features, whereas AASB 1038 applies to life insurance contracts and financial instruments with discretionary participation features, certain aspects of accounting for life investment contracts as well as certain aspects of accounting for assets that back life insurance liabilities or life investment contract liabilities.

Whereas IFRS 4 includes only limited improvements to accounting for insurance contracts and disclosure requirements, AASB 1038 addresses all aspects of the recognition, measurement and disclosure of life insurance contracts.

IFRS 4 allows insurers to use a practice described as “shadow accounting”. AASB 1038 does not allow shadow accounting.

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Accounting Standard AASB 1038

The Australian Accounting Standards Board made Accounting Standard AASB 1038 *Life Insurance Contracts* under section 334 of the *Corporations Act 2001* on 15 July 2004.

This compiled version of AASB 1038 applies to annual reporting periods beginning on or after 1 January 2020 but before 1 January 2021. It incorporates relevant amendments contained in other AASB Standards made by the AASB and other decisions of the AASB up to and including 21 May 2019 (see Compilation Details).

Accounting Standard AASB 1038
Life Insurance Contracts

1 Application

1.1 This Standard applies to each entity that is:

(a) a *life insurer*; or

(b) the parent in a group that includes a life insurer;

when the entity:

(c) is a reporting entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;

(d) is an other reporting entity and prepares general purpose financial statements; or

(e) prepares financial statements that are, or are held out to be, general purpose financial statements.

AusCF1 AusCF paragraphs included in this Standard apply only to:

(a) not-for-profit entities; and

(b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

Such entities are referred to as 'AusCF entities'. For AusCF entities, the term 'reporting entity' is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. For-profit entities applying the *Conceptual Framework for Financial Reporting* (as set out in paragraph Aus1.1 of the *Conceptual Framework*) shall not apply AusCF paragraphs.

1.2 This Standard applies to annual reporting periods beginning on or after 1 January 2005. [Note: For application dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

1.3 This Standard shall not be applied to annual reporting periods beginning before 1 January 2005.

1.4 [Deleted by the AASB]

1.4.1 [Deleted by the AASB]

1.4.2 For the purposes of AASB 134 *Interim Financial Reporting*, the determination of *policy liabilities* does not necessarily require a full actuarial valuation. In accordance with AASB 134, policy liabilities would need to be determined on a reliable basis, would be based on reasonable estimates, would include a full review of all assumptions, and would not be materially different from the policy liabilities determined by a full actuarial valuation.

1.5 When operative, this Standard supersedes AASB 1038 *Life Insurance Business* as approved by public notice in the *Commonwealth of Australia Gazette* No 546, 19 November 1998.

1.6 AASB 1038 (issued in November 1998) remains applicable until superseded by this Standard.

1.7 Notice of this Standard was published in the *Commonwealth of Australia Gazette* No S 294, 22 July 2004.

2 Scope

Life Insurance Contracts

2.1 This Standard applies to:

(a) life insurance contracts (including *life reinsurance contracts*) that a life insurer issues and to life reinsurance contracts that it holds;

(b) certain aspects of accounting for *life investment contracts* that a life insurer issues, or, in the case of a life investment contract that is reinsured, that it holds; and

(c) certain assets backing *life insurance liabilities* or *life investment contract liabilities*.

2.1.1 A life insurance contract is:

(a) an *insurance contract*, as defined by this Standard, regulated under the *Life Insurance Act 1995*, or similar contracts issued by entities operating outside Australia; or

(b) a *financial instrument* with a *discretionary participation feature*, which is regulated under the Life Insurance Act, or similar contracts issued by entities operating outside Australia.

2.1.2 All other insurance contracts are *general insurance contracts* and are treated under AASB 1023 *General Insurance Contracts* or AASB 4 *Insurance Contracts*.

2.1.3 A life insurer is defined as an *insurer* or *reinsurer*, registered under the Life Insurance Act, who issues life insurance contracts or life investment contracts, or a similar entity operating outside Australia.

2.1.4 This Standard applies to life insurance contracts issued by friendly societies registered under the Life Insurance Act. Private health insurance contracts that are issued under the *National Health Act 1953* by friendly societies registered under the Life Insurance Act are excluded from the scope of this Standard. Private health insurance contracts issued under the National Health Act are treated under AASB 1023.

2.1.5 Life insurers often sell contracts that do not meet the definition of a life insurance contract in this Standard. These contracts are referred to as life investment contracts for the purposes of this Standard. Section 12 addresses the requirements in relation to life investment contracts.

2.1.6 A financial instrument with a discretionary participation feature, issued by a life insurer, is defined as a life insurance contract for the purposes of this Standard and in measuring the life insurance liability, issuers of such instruments would apply paragraph 8.9. AASB 7 *Financial Instruments: Disclosures* addresses additional disclosure in relation to these financial instruments.

Embedded Derivatives

2.2.1 AASB 9 *Financial Instruments* requires hybrid contracts that contain financial asset hosts to be classified and measured in their entirety in accordance with the requirements in paragraphs 4.1.1-4.1.5 of that Standard. However, AASB 9 requires an entity to separate some embedded derivatives from their financial liability hosts, measure them at *fair value* and include changes in their fair value in the statement of comprehensive income. AASB 9 applies to derivatives embedded in a life insurance contract unless the embedded derivative is itself a life insurance contract.

2.2.2 As an exception to the requirement in AASB 9, an insurer need not separate, and measure at fair value, a *policyholder's* option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate) even if the exercise price differs from the carrying amount of the host *insurance liability*. However, the requirement in AASB 9 applies to a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in a financial variable (such as an equity or commodity price or index), or a non-financial variable that is not specific to a party to the contract. Furthermore, that requirement also applies if the holder's ability to exercise a put option or cash surrender option is triggered by a change in such a variable (for example, a put option that can be exercised if a stock market index reaches a specified level).

2.2.3 Paragraph 2.2.2 applies equally to options to surrender a financial instrument containing a discretionary participation feature.

Deposit Components

2.3.1 Some life insurance contracts contain both an insurance component and a *deposit component*. In some cases, an insurer is permitted to *unbundle* those components.

2.3.2 Unbundling is permitted if the insurer can measure the deposit component separately.

2.3.3 If a life insurer cannot measure the deposit component separately, an insurer shall not unbundle the deposit component.

2.3.4 To unbundle a life insurance contract, a life insurer:

(a) treats the life insurance component as a life insurance contract in accordance with this Standard;

(b) subject to (c), treats the deposit component as a life investment contract in accordance with this Standard; and

(c) where the deposit component includes a discretionary participation feature, treats this component as a separate life insurance contract in accordance with this Standard.

3 Purpose of Standard

3.1 The purpose of this Standard is to:

(a) prescribe the accounting methods to be used for reporting on life insurance contracts consistent with AASB 4 *Insurance Contracts*, and the accounting methods to be used for certain aspects of life investment contracts;

(b) prescribe the accounting methods to be used in accounting for assets backing life insurance liabilities or life investment contract liabilities; and

(c) require disclosures about life insurance contracts and disclosures about certain aspects of life investment contracts.

4 Equity in a Shareholder-Owned Life Insurer

4.1.2 Equity in a shareholder-owned life insurer will generally comprise only shareholder equity. Although participants in the industry commonly refer to "policyholder retained profits", in relation to Australian business such amounts are unvested policyholder benefits liabilities. Under Australian legislation, "policyholder retained profits" relating to Australian life insurance business are paid to policyholders, although the timing of the payment is at the discretion of the life insurer. A life insurer may have unallocated surplus that is in the nature of "policyholder equity" if it is a friendly society or has foreign life insurance operations in a jurisdiction that permits retained profits to remain unallocated between policyholders and shareholders, and the policyholders' component has yet to be determined. A key factor in evaluating the classification as liability or equity of retained profits in a friendly society is the benefit fund rules of each particular benefit fund. If the rules of a benefit fund were such that all retained profits by default are for the benefit of policyholders, such retained profits would be classed as policyholder benefit liabilities.

5 Premiums and Claims

5.1 Subject to paragraph 5.2, insurance components of life insurance contract premiums are income and insurance components of life insurance contract claims are expenses and shall be recognised separately in the statement of comprehensive income. Deposit components of life insurance contract premiums are not income and deposit components of life insurance contract claims are not expenses and shall be recognised as changes in life insurance liabilities.

5.2 For life insurance contracts where unbundling of the deposit component is prohibited under paragraph 2.3.3, premiums shall be recognised as income and claims shall be recognised as expenses.

5.2.1 A wide variety of products are offered by life insurers – risk or insurance products, investment products and numerous hybrids of these two products. There will be hybrid products that fall within the scope of this Standard that have both deposit and insurance components.

5.2.2 Premiums may comprise amounts that give rise to:

(a) income that is earned by providing services, including the bearing of risks; and

(b) amounts that are akin to deposits and which qualify for recognition as liabilities.

5.2.3 Similarly, claims may comprise amounts that give rise to:

(a) expenses that are incurred in providing services, including the bearing of risks; and

(b) amounts that are akin to withdrawals from deposits and which qualify for recognition as reductions in liabilities.

6 Reinsurance

Reporting by Cedants

6.1 A *cedant* shall recognise:

(a) premiums ceded to reinsurers as reinsurance expenses;

(b) claim recoveries and commissions from reinsurers as income; and

(c) claim recoveries and other inflows not yet received from a reinsurer as an asset.

6.1.1 Life insurers may reinsure some of their business. The cedant remains responsible for the total amount of successful claims of policyholders and, through reinsurance arrangements, may be entitled to recover amounts relating to some of those claims.

6.1.2 *Reinsurance contracts* are considered to be separate transactions from the original life insurance contracts and therefore give rise to separately recognisable amounts. The cedant recognises the gross amount of premiums received in accordance with paragraphs 5.1 and 5.2 and, where portions of the policies are reinsured, the ceded premiums are recognised as expenses (except where they would otherwise be recognised as deposits, if not reinsured). Any recoveries from reinsurers are recognised as income by the cedant (except for any amounts representing the return of deposits). Consistent with this approach, the gross amount of life insurance liabilities is recognised as a liability and claim recoveries not yet received from a reinsurer are recognised as a receivable by the cedant.

Reporting by Reinsurers

6.2 Inwards reinsurance premiums and outwards reinsurance claims shall be recognised by the accepting reinsurer as for premiums and claims in accordance with paragraphs 5.1 and 5.2. Life insurance liabilities assumed shall be recognised as a liability by the accepting reinsurer in accordance with section 8.

6.2.1 From the perspective of the reinsurer, reinsurance premiums accepted are recognised in the same way as the cedant treats the acceptance of premiums under a *direct insurance contract*. Correspondingly, claims paid and payable to direct insurers are recognised as expenses by the reinsurer. Consistent with these treatments, life insurance liabilities assumed are recognised as a liability by the accepting reinsurer.

7 Impairment of Reinsurance Assets

7.1.1 If a cedant's *reinsurance asset* is impaired, the cedant shall reduce its carrying amount accordingly and recognise that impairment in the statement of comprehensive income. A reinsurance asset is impaired if, and only if:

(a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive amounts due to it under the terms of the contract; and

(b) that event has a reliably measurable impact on the amounts that the cedant will receive from the reinsurer.

8 Life Insurance Liabilities

Present Value and Best Estimates

8.1 Obligations arising from life insurance contracts (life insurance liabilities) shall be recognised as liabilities and shall be measured at the end of each reporting period as:

(a) the net present value of future receipts from and payments to policyholders, including participating benefits, allowing for the possibility of discontinuance before the end of insurance contract periods, plus planned margins of revenues over expenses relating to

services yet to be provided to policyholders, on the basis of assumptions that are best estimates and using a discount rate determined in accordance with paragraphs 8.7 or 8.8; or

(b) the accumulated benefits to policyholders after allowing for the portion of *acquisition costs* expected to be recouped where the result would not be materially different from the application of paragraph 8.1(a).

8.1.1 The participating benefits component of life insurance liabilities includes previously vested benefits and future supportable bonuses. In addition to life insurance liabilities, there may be other liabilities that relate to participating policyholders. Insurance contract benefits attributable to participating policyholders that are not yet vested with specific policyholders are recognised as liabilities. These are further discussed in section 9.

8.1.2 Premiums are generally received in advance of the provision of services to policyholders, including the payment of claims. In return for premiums, life insurers provide services sometimes over long periods. Entering into a life insurance contract is considered to be the event that gives rise to future benefits and present obligations under a policy.

8.1.3 Where there are a number of variables relating to future uncertainties, a net present value approach to measuring life insurance liabilities is likely to provide the most appropriate measurement basis. The obligations under these more complex contracts are generally measured as the present value of the expected inflows, such as premiums and fees, and outflows, such as claims and other expenses, based on assumptions relating to whole populations of policyholders, and taking into account applicable taxation.

8.1.4 An accumulation approach involves accruing the entitlements in policyholders' records at the end of the reporting period. If the fees expected to be charged by the life insurer to the policyholder in each future reporting period are expected to equal or exceed any expenses incurred by the life insurer, the life insurance liability calculated under the accumulation approach would not be materially different from that obtained using the approach in paragraph 8.1(a).

8.1.5 The ultimate cost of meeting claims under many life insurance contracts depends on the frequency of occurrence of particular future events such as death and surrender and in some cases may depend upon other factors such as the future levels of investment returns. Assumptions need to be made about these future events. In order to ensure that life insurance liabilities are measured reliably, such assumptions need to be "best estimates".

8.1.6 Best estimate assumptions used in determining the present value of life insurance liabilities, such as the best estimate of the bonus rate, are made on the basis of the assets available to the life insurer at the end of the reporting period and do not include any allowance for future contributions by owners and other funds which may be provided in the future to support the business.

Acquisition Costs

8.1.7 Life insurance contracts written in one reporting period often give rise to benefits to the life insurer in subsequent reporting periods, such as future management fees and surrender penalties. Therefore, there are future benefits associated with the costs of acquiring life insurance contracts, and such costs are often substantial.

8.1.8 In the life insurance industry, acquisition costs are usually recognised as expenses in the reporting period in which they are incurred. This is generally offset by identifying a portion of the planned margins included in life insurance liabilities as relating to the recovery of acquisition costs. The most useful and reliable information available about the acquisition costs that will give rise to future economic benefits is the amount of future charges for acquisition costs identified as part of the process of determining life insurance liabilities.

Recognition of Planned Margins as Revenues

8.2 Planned margins of revenues over expenses for life insurance contracts shall be recognised in the statement of comprehensive income over the reporting periods during which the services, to which those margins relate, are provided to policyholders, and the revenues, relating to those services, are received.

8.2.1 In setting premium rates, life insurers will include planned margins of revenues over expenses. As noted in paragraph 8.1.2, premiums are generally received in advance of the provision of services to policyholders.

8.2.2 In this Standard, planned margins are recognised in the statement of comprehensive income when, and only when, the life insurer has performed the services necessary to establish a valid claim to those margins and has received the revenues relating to those services. To ensure that planned margins are recognised during the reporting period in which the relevant services are provided, life insurance liabilities include a component relating to those margins. These margins are then "released" based on one or more factors or "profit carriers" which correspond to the performance of services and the earning of the margins. In relation to many products, the profit carrier might be premiums or claims.

Differences between Actual and Assumed Experience

8.3 Except in relation to investment earnings rate assumptions for participating business, the effect of changes in life insurance liabilities resulting from a difference between actual and assumed experience determined during the reporting period shall be recognised in the statement of comprehensive income as income or expenses in the reporting period in which the changes occur.

8.3.1 The assumed patterns and frequencies of events used in determining life insurance liabilities are compared with actual events in each reporting period to assess their accuracy. The effects of differences between actual and assumed experience represents decreases or increases in the expected payments to policyholders and are income or expenses of the reporting period in which the differences occur. For example, where the assumed costs of death claims under a renewable term life product line are greater than the actual costs for a reporting period, income equal to the difference is recognised in the statement of comprehensive income for the current reporting period.

8.3.2 The recognition of the net amount of changes in life insurance liabilities resulting from a difference between actual and assumed experience identified during the reporting period as income or an expense is consistent with the use of assumptions that are best estimates as at the end of each reporting period.

Changes to Underlying Assumptions

8.4 Assumptions used for measuring life insurance liabilities shall be reviewed for each reporting period. Where the review leads to changes in assumptions, with the exception of new business, the changes shall be deemed to occur at the end of the reporting period.

8.4.1 Assumptions used for measuring new business may be deemed to have occurred at the beginning of the reporting period, or at the date of commencement of the new business or at the end of the reporting period.

8.4.2 In preparing interim financial reports, the end of the reporting period is the end of the interim reporting period. Accordingly, changes in assumptions are deemed to occur at the end of the interim reporting period.

8.5 The financial effects of changes to the assumptions underlying the measurement of life insurance liabilities made during the reporting period shall be recognised in the statement of comprehensive income over the future reporting periods during which services are provided to policyholders, except that:

(a) any estimated excess of the present value of future expenses over the present value of future revenues for a group of related products arising during the reporting period shall be recognised as an expense of the reporting period;

(b) the reversal of an expense previously recognised in accordance with paragraph 8.5(a) shall be recognised as income of the reporting period in which the reversal of the loss is recognised;

(c) the effects of a change to adopted discount rates and related economic assumptions caused by changes in investment market and general economic conditions shall be recognised as income or expense of the reporting period in which the change occurs; and

(d) material calculation errors and similar errors shall be treated in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

8.5.1 The assumptions underlying the measurement of life insurance liabilities are reviewed at the end of each reporting period. Based on past experience and revised expectations about the future, it may become apparent that particular assumptions are not consistent with likely future experience and need to be changed. Such changes are effectively a reassessment of the likely patterns and frequencies of future events. The normal revision of assumptions is not considered to be an error.

8.5.2 Apart from the circumstances identified in paragraph 8.5, changes to underlying assumptions are effectively recognised over future reporting periods by adjusting the planned margins included in life insurance liabilities. If the effect of a changed assumption is a decrease in the present value of present obligations to policyholders, the planned margin is increased. If the effect is an increase in the present value of obligations to policyholders, the planned margin is reduced. The overall amount of life insurance liabilities is not affected by these changes to underlying assumptions, as long as the planned margin of revenues over expenses is not eliminated.

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8.5.3 Material calculation errors and similar errors are treated in accordance with AASB 108. Under AASB 108, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, an entity corrects material prior period errors retrospectively in the first financial statements authorised for issue after their discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

Changes to Discount Rates and Related Economic Assumptions

8.5.4 As with other assumptions, the discount rates and related economic assumptions used in determining life insurance liabilities are reviewed at the end of each reporting period. The effects of a change to adopted discount rates and related economic assumptions caused by changes in investment market and economic conditions are recognised in the reporting period in which the change is made. For a life insurer with a typical spread of investments, if market yields fall, investment values generally rise and the resulting increases in investment values are recognised as income in the reporting period in which they occur. Where the discount rates are adjusted in line with such falls in market rates, life insurance liabilities for such contracts will increase and an expense will be recognised, having an offsetting (but not usually matching) effect on the increased investment values.

8.5.5 In relation to participating business (which is discussed in section 9), the effect of a change to the assumptions about discount rates, explained in paragraph 8.5.4, is a result of adjusting the best estimate of life insurance liabilities, including future participating benefits. For example, if market rates of return rise, investment values generally fall and the resulting decreases in investment values are recognised as an expense in the reporting period in which they occur. The fall in investment values will clearly impact on the ability of the life insurer to support future participating benefits. These are likely to be reduced, with an offsetting effect on the reduced investment values.

Liability Adequacy Test

8.6 Life insurers shall perform a *liability adequacy test*.

8.6.1 Situations may arise where the present value of the planned margin of revenues over expenses for a group of related products will be adjusted as a result of changing underlying assumptions to the extent that the planned margin is eliminated and becomes a planned loss. That is, a review of expected future cash flows indicates that the present value of estimated future expenses for a group of related products exceeds the present value of estimated future revenues. In such circumstances, the excess of the present value of expenses over revenues arising during the reporting period is recognised in the statement of comprehensive income in the reporting period in which the assessment is made. The loss reflects a higher present obligation due to adverse future experience, which is now expected in future years. Whilst the future cash flows giving rise to the loss are yet to occur, this treatment is justified on the basis that entering into life insurance contracts is an event that gives rise to a present obligation to meet the expected future claims.

8.6.2 A group of related products, for the purpose of the calculating the planned margin, performing the liability adequacy test and for disclosure, would be products that have substantially the same contractual terms and were priced on the basis of substantially the same assumptions.

8.6.3 In reviewing expected future cash flows, the insurer takes into account both future cash flows under insurance contracts it has issued and the related reinsurance contracts.

8.6.4 Where an intangible asset has arisen under paragraph 13.1.1(b), a loss arises when the present value of planned margins of revenues over expenses is less than the related intangible asset. This test is to be performed for groups of related products and the intangible asset is allocated, on a reasonable basis, across these groups. Any loss is recognised as an expense in the statement of comprehensive income. In recognising the loss in the statement of comprehensive income, the life insurer first writes down the related intangible asset and then reflects any additional liability in the life insurance liabilities.

Discount Rates

8.7 To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities shall be discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the future obligations.

8.8 **To the extent that the benefits under life insurance contracts are contractually linked to the performance of the assets held, the life insurance liabilities shall be discounted using discount rates based on the market returns on assets backing life insurance liabilities.**

8.8.1 In applying paragraph 8.7, the discount rates adopted are not intended to reflect risks inherent in the liability cash flows, which might be allowed for by a reduction in the discount rate in a fair value measurement, nor are they intended to reflect the insurance and other non-financial risks and uncertainties reflected in the life insurance liabilities. The discount rates are not intended to include allowance for the cost of any options or guarantees that are separately measured as part of the life insurance liabilities.

8.8.2 In applying paragraph 8.7, typically, government bond rates may be appropriate discount rates for the purposes of this Standard, or they may be an appropriate starting point in determining such discount rates.

Financial Instruments with Discretionary Participation Features

8.9 **Financial instruments with discretionary participation features are life insurance contracts for the purposes of this Standard and shall be treated in accordance with paragraphs 8.1 to 8.8 and section 9.**

9 Participating Benefits

9.1 **Except for transfers from unvested policyholder benefits liabilities, participating benefits vested in policyholders in relation to the reporting period shall be recognised in the statement of comprehensive income as expenses for the reporting period. Such benefits which remain payable as at the end of the reporting period shall be recognised as a component of life insurance liabilities.**

9.2 **Participating benefits that have been allocated in relation to the reporting period to participating policyholders generally, but that have not yet vested in specific policyholders, shall be recognised as expenses for the reporting period. Amounts that have been allocated to participating policyholders generally, but that have not vested in specific policyholders as at the end of the reporting period, shall be recognised as unvested policyholder benefits liabilities.**

9.2.1 Some life insurers sell participating business. Participating policyholders are generally eligible to receive the same types of benefits as other policyholders and, in addition, are entitled to participate in the profits relating to participating business. For example, a participating policyholder may receive a low contractually determined rate of return on savings together with term life cover and, in addition, receive benefits that depend on the investment performance of the pool of assets associated with participating policies and on the risk experience of participating policyholders. These additional benefits are often called bonuses and are at the discretion of the life insurer. In some reporting periods the life insurer may withhold a portion of the "profits" from the pool of participating business and recognise these "profits" as unvested policyholder benefits liabilities. In other reporting periods the life insurer may "top up" the vested benefits to participating policyholders. Such vesting of benefits is often done to provide a reasonably level vesting of benefits over time, despite volatility in periodic profits from participating business.

9.2.2 It is sometimes argued that the discretionary nature of participating benefits means that they should be treated as appropriations of profit in the same way as dividends to shareholders. Because life insurance liabilities relating to all types of policyholders are recognised as liabilities under the Life Insurance Act (excluding some contracts issued by friendly societies), it is appropriate for the participating benefits vested in relation to the reporting period, other than transfers from unvested policyholder benefits liabilities, to be recognised as expenses of the reporting period.

9.2.3 Mutual life insurers are effectively owned by their policyholder members. Nevertheless, the mutual life insurer also has obligations to its policyholders. These obligations are classified as policy liabilities. Benefits vested in a mutual life insurer's policyholders, other than transfers from unvested policyholder benefits liabilities, are also to be recognised as expenses in the reporting period in which they are vested.

9.2.4 For financial reporting purposes, participating benefits vested in policyholders in a reporting period but not yet paid are included in life insurance liabilities and are measured at net present values. In the case of investment account participating business this may be approximately the same as the amount actually allocated to policyholder accounts. In the case of traditional participating business, there may be a significant difference between the net present value and the face value of the amount vested in policyholders. The net present value is relevant for financial reporting purposes because it is the best estimate of the net present value of the amount that the life insurer expects to pay out in the future using information based on experience up to the end of the reporting period.

9.2.5 Where a life insurer "tops up" the vested benefits from previously recognised unvested policyholder benefits liabilities, a transfer between liabilities is recognised. If a life insurer tops up the vested benefits for participating policyholders other than from unvested policyholder benefits liabilities, the amount of the "top up" is recognised as an expense of the reporting period in which the additional benefits are vested.

10 Assets Backing Life Insurance Liabilities or Life Investment Contract Liabilities

Fair Value Approach

10.1.1 Paragraphs 10.2 to 10.7.2 address the measurement of certain assets backing life insurance liabilities or life investment contract liabilities. The fair value approach to the measurement of assets backing life insurance liabilities or life investment contract liabilities is consistent with the present value measurement approach for life insurance liabilities required by this Standard and the fair value measurement approach for life investment contract liabilities required by this Standard. Where assets are not backing life insurance liabilities or life investment contract liabilities life insurers apply the applicable accounting standards making use of any measurement choices available.

Measurement

10.2 ***Financial assets* that:**

(a) are within the scope of AASB 9;

(b) back life insurance liabilities or life investment contract liabilities; and

(c) are permitted to be designated as "at fair value through profit or loss" under AASB 9;

shall be designated as "at fair value through profit or loss" under AASB 9 on first application of this Standard, or on initial recognition.

10.2.1 An insurer applies AASB 9 to its financial assets. Under AASB 9 a financial asset is classified and measured at fair value through profit or loss when:

(a) it does not meet the criteria specified in paragraph 4.1.2 of AASB 9 to be classified at amortised cost; or

(b) it does not meet the criteria specified in paragraph 4.1.2A of AASB 9 to be classified at fair value through other comprehensive income, or

(c) it is designated as "at fair value through profit or loss" upon initial recognition in accordance with paragraph 4.1.5 of AASB 9.

AASB 1 *First-time Adoption of Australian Accounting Standards* permits entities to designate financial assets as "at fair value through profit or loss" on first application of the Standard.

10.2.2 The view adopted in this Standard is that, in all but rare cases, financial assets within the scope of AASB 9 that back life insurance liabilities or life investment contract liabilities are permitted to be measured at fair value through profit or loss under AASB 9. This is because the measurement of life insurance liabilities under this Standard incorporates current information and measuring the financial assets backing these life insurance liabilities at fair value eliminates or significantly reduces a potential measurement or recognition inconsistency which would arise if the assets were classified and measured at amortised cost or fair value through other comprehensive income (refer to AASB 9 paragraph B4.1.30(a)).

10.3 **Investment property that is within the scope of AASB 140 *Investment Property* and that backs life insurance liabilities or life investment contract liabilities shall be measured at fair value using the fair value model under AASB 140 and AASB 13 *Fair Value Measurement*.**

10.4 **Property, plant and equipment that is within the scope of AASB 116 *Property, Plant and Equipment* and that backs life insurance liabilities or life investment contract liabilities shall be measured using the revaluation model under AASB 116.**

10.4.1-10.4.2 [Deleted by the AASB]

10.5 **Investments in associates that:**

(a) are defined by AASB 128 *Investments in Associates and Joint Ventures*;

(b) back either life insurance liabilities or life investment contract liabilities;

(c) are held by mutual funds, unit trusts and similar entities including *investment-linked* insurance funds; and

(d) **are permitted to be designated as "at fair value through profit or loss" under AASB 9;**

shall be designated as "at fair value through profit or loss" under AASB 9 on first application of this Standard, or on initial recognition.

10.5.1 An insurer applies AASB 128 to its investments in associates. AASB 128 requires investments in associates to be accounted for using the equity method. When investments in associates are held by mutual funds, unit trusts and similar entities including investment-linked insurance funds, AASB 128 permits the investments in those associates to be measured at fair value through profit or loss in accordance with AASB 9.

10.6 Venturers' interests in joint ventures that:

(a) are defined by AASB 11 *Joint Arrangements*;

(b) back either life insurance liabilities or life investment contract liabilities;

(c) are held by mutual funds, unit trusts and similar entities including investment-linked insurance funds; and

(d) are permitted to be designated as "at fair value through profit or loss" under AASB 9;

shall be designated as "at fair value through profit or loss" under AASB 9, on first application of this Standard, or on initial recognition.

10.6.1 AASB 11 requires a joint venturer to recognise its interest in a joint venture as an investment and to account for that investment using the equity method in accordance with AASB 128 unless exempted from applying that method. AASB 128 permits mutual funds, unit trusts and similar entities including investment-linked insurance funds to measure investments in joint ventures at fair value through profit or loss in accordance with AASB 9.

Separate Financial Statements

10.7 When preparing *separate financial statements*, those investments in subsidiaries, joint ventures and associates that:

(a) are within the scope of AASB 127 Separate Financial Statements;

(b) back life insurance liabilities or life investment contract liabilities; and

(c) are permitted to be designated as "at fair value through profit or loss" under AASB 9;

shall be designated as "at fair value through profit or loss" under AASB 9, on first application of this Standard or on initial recognition.

10.7.1 An insurer applies AASB 127 to its investments in subsidiaries, joint ventures and associates when preparing separate financial statements. Under AASB 127, in the parent's separate financial statements, the investments in subsidiaries, joint ventures and associates can either be accounted for at cost or in accordance with AASB 9.

10.7.2 In the parent's separate financial statements, investments in subsidiaries, joint ventures and associates, that are within the scope of AASB 127, that the insurer considers back life insurance liabilities or life investment contract liabilities, and that are permitted to be designated as "at fair value through profit or loss" under AASB 9, are designated as "at fair value through profit or loss" under AASB 9, on first application of this Standard or on initial recognition.

11 Imputed Inflows and Outflows

11.1 Subject to paragraph 18.3, a life insurer shall recognise imputed inflows and outflows as income and expenses when, and only when, such imputed flows relate to transactions with external entities.

11.1.1 Life insurers often impute inflows and outflows to different classes of policyholders in order to help ensure that they are treated equitably. For example, a life insurer may own the buildings that it occupies. The funds of a particular group of policyholders are used to acquire and operate such buildings whilst a wider group of policyholders and shareholders may benefit from the use of the buildings. In the owner-occupied building example, the life insurer imputes an inflow of rent income to the policyholders whose funds are used to acquire and operate the buildings and imputes an outflow of rent cost to the other policyholders and to shareholders.

11.1.2 In cases where there are no transactions with external entities, such as with owner-occupied buildings, the life insurer is dealing with itself. There is no transaction or other past event that gives rise to income or an expense. Any inflows and outflows imputed for internal management purposes would be eliminated in preparing external financial statements except in relation to the disaggregated disclosures required by paragraphs 18.1 and 18.2.

11.1.3 In some cases, life insurers impute inflows and outflows where external entities are involved. For example, life insurers often lend funds to their employees at concessional rates of interest with the funds being provided by a particular group of policyholders, whilst other policyholders and any shareholders benefit from the services provided by those employees. Because external parties are involved, such imputed inflows and outflows are recognised as income and expenses when they can be reliably measured.

12 Life Investment Contracts

12.1 Life investment contract liabilities, that are permitted to be designated as "at fair value through profit or loss" under AASB 9, shall be designated as "at fair value through profit or loss" under AASB 9 on first application of this Standard, or on initial recognition.

12.1.1 The view adopted in this Standard is that, in all but rare cases, life investment contract liabilities within the scope of AASB 9 are permitted to be measured at fair value through profit or loss under AASB 9. This is because, when a life investment contract liability is backed by a financial asset measured at fair value through profit or loss, designating the life investment contract liability at fair value through profit or loss eliminates or significantly reduces a potential measurement inconsistency which would arise if the life investment contract liability were measured at amortised cost. In addition, in the vast majority of cases, life investment contract liabilities would be managed and their performance would be evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

12.1.2 Some life investment contracts involve both the origination of one or more financial instruments and the provision of management services. Life investment contract liabilities arise under the financial instrument element and are treated under AASB 139. The management services element, including associated incremental costs of obtaining a contract, is treated under AASB 15 *Revenue from Contracts with Customers*; this element may also give rise to assets and liabilities.

13 Life Insurance Contracts Acquired in a Business Combination or Portfolio Transfer

13.1.1 To comply with AASB 3 *Business Combinations*, an insurer shall, at the acquisition date, measure at fair value the insurance liabilities assumed and *insurance assets* acquired in a business combination. However, an insurer is permitted, but not required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for life insurance contracts that it issues; and

(b) an intangible asset, representing the difference between:

  (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed; and

  (ii) the amount described in paragraph 13.1.1(a).

  The subsequent measurement of this asset shall be consistent with the measurement of the related life insurance liability.

13.1.2 An insurer acquiring a portfolio of life insurance contracts may use an expanded presentation described in paragraph 13.1.1.

13.1.3 The intangible assets described in paragraphs 13.1.1 and 13.1.2 are excluded from the scope of AASB 136 *Impairment of Assets* and from the scope of AASB 138 *Intangible Assets* in respect of recognition and measurement. AASB 136 and AASB 138 apply to customer lists and customer relationships reflecting the expectation of future contracts that are not part of the contractual insurance rights and contractual insurance obligations that existed at the date of a business combination or portfolio transfer.

13.1.4 AASB 138 includes disclosure requirements in relation to this intangible asset.

13.1.5 Where a life insurer recognises an intangible asset under paragraph 13.1.1(b), this intangible asset is considered when performing the liability adequacy test referred to in paragraph 8.6.

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14 Life Insurance Contracts Disclosure – Explanation of Recognised Amounts

14.1 A life insurer shall disclose information that identifies and explains the amounts in its financial statements arising from life insurance contracts.

14.1.1 To comply with paragraph 14.1, a life insurer shall disclose:

(a) its accounting policies for life insurance contracts and related assets, liabilities, income and expense;

(b) the recognised assets, liabilities, income, expense and cash flows arising from life insurance contracts. Furthermore, if the life insurer is a cedant, it shall disclose:

(i) gains and losses recognised in profit or loss at the time of buying reinsurance; and

(ii) if the cedant defers and amortises gains and losses arising at the time of buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period;

(c) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (b). When practicable, a life insurer shall also give quantified disclosure of those assumptions;

(d) the effect of changes in assumptions used to measure life insurance assets and life insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements; and

(e) reconciliations of changes in life insurance liabilities and reinsurance assets.

14.1.2 When applying paragraph 14.1.1(b) and disclosing recognised income arising from life insurance contracts, life insurers would normally disclose income from direct and reinsurance business. In accordance with the principles embodied in this Standard, with the exception of premium revenue recognised in accordance with paragraph 5.1, all revenues are recognised and disclosed before the effects of any transfers to or from life insurance liabilities. Disclosure of the effects of transfers to and from life insurance liabilities is required by paragraph 14.1.1(e).

14.1.3 In accordance with the principles embodied in this Standard, with the exception of claims expense recognised in accordance with paragraph 5.1, all expenses are recognised and disclosed before the effects of any transfers to or from life insurance liabilities. Disclosure of the effects of transfers to and from life insurance liabilities is required by paragraph 14.1.1(e).

14.1.4 To disclose and explain the expenses arising from life insurance contracts, life insurers would normally disclose:

(a) outwards reinsurance expense;

(b) operating expenses:

(i) claims expense;

(ii) policy acquisition expenses, separated into material components including commission;

(iii) policy maintenance expenses; and

(iv) investment management expenses; and

(c) the basis for the apportionment of operating expenses between:

(i) life insurance contract acquisition;

(ii) life insurance contract maintenance;

(iii) investment management expenses;

(iv) life investment contract acquisition;

(v) life investment contract maintenance; and

(vi) other expenses.

14.1.5 When applying paragraphs 14.1.1(c) and 14.1.1(d) and disclosing the process used to determine assumptions, quantified disclosure of assumptions and the effect of changes in assumptions, the life insurer would normally show the impact of changes in assumptions on future profit margins and life insurance liabilities. The assumptions that would normally have the greatest effect on the measurement of recognised amounts described in paragraph 14.1.1(b) are:

(a) discount rates and inflation rates;

(b) profit carriers used for each major product group;

(c) future maintenance and investment management expenses, the rate of inflation applicable to them and any automatic indexation of benefits and premiums;

(d) rates of taxation;

(e) mortality and morbidity, by reference to the identity of the tables;

(f) rates of discontinuance;

(g) surrender values;

(h) rates of growth of unit prices in respect of unit-linked benefits;

(i) rates of future supportable participating benefits; and

(j) the crediting policy adopted in determining future supportable participating benefits.

14.1.6 When applying paragraph 14.1.1(b) and disclosing the recognised liabilities arising from life insurance contracts, life insurers would normally disclose the following components of life insurance liabilities:

(a) future policy benefits, including participating benefits;

(b) balance of future expenses;

(c) planned margins of revenues over expenses;

(d) future charges for acquisition costs; and

(e) balance of future revenues.

14.1.7 When a life insurer is presenting the disclosures required by paragraphs 14.1.1(c) and 14.1.1(d) the insurer determines the level and extent of disclosure that is appropriate having regard to its circumstances and the qualitative characteristics of financial statements under the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

AusCF14.1.7 Notwithstanding paragraph 14.1.7, in respect of AusCF entities, when a life insurer is presenting the disclosures required by paragraphs 14.1.1(c) and 14.1.1(d) the insurer determines the level and extent of disclosure that is appropriate having regard to its circumstances and the qualitative characteristics of financial statements under the *Framework for the Preparation and Presentation of Financial Statements* (as identified in AASB 1048 *Interpretation of Standards*).

15 Nature and Extent of Risks Arising from Life Insurance Contracts

15.1 A life insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from life insurance contracts.

15.1.1 To comply with paragraph 15.1, a life insurer shall disclose:

(a) its objectives, policies and processes for managing risks arising from life insurance contracts and the methods used to manage those risks;

(b) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:

(i) sensitivity to insurance risk (see paragraph 15.1.3);

(ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of *insured event*, geographical area, or currency); and

(iii) actual claims compared with previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. A life insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year;

(c) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 would require if the life insurance contracts were within the scope of AASB 7. However:

(i) a life insurer need not provide the maturity analyses required by paragraphs 39(a) and (b) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position; and

(ii) if a life insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of AASB 7. Such a life insurer shall also provide the disclosures required by paragraph 41 of AASB 7; and

(d) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the life insurer is not required to, and does not, measure the embedded derivatives at fair value.

15.1.2 The claims development disclosure required by paragraph 15.1.1(b)(iii) only applies to classes of business where claims are not typically resolved within one year. For many life insurance products this disclosure would not normally be required. Furthermore, claims development disclosure would not normally be needed for annuity contracts, for example, because each periodic payment arises, in effect, from a separate claim about which there is no uncertainty.

15.1.3 To comply with paragraph 15.1.1(b)(i), a life insurer shall disclose either (a) or (b) as follows:

(a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the end of the reporting period occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if a life insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of AASB 7; and

(b) qualitative information about sensitivity, and information about those terms and conditions of life insurance contracts that have a material effect on the amount, timing and uncertainty of the life insurer's future cash flows.

16 Other Disclosures Relating to Life Insurance Contracts

16.1 Where any premiums and any claims are separated into their revenue, expense and change in life insurance liability components in accordance with paragraph 5.1, total premiums and total claims shall be disclosed.

16.1.1 The mix of products written by a life insurer will vary between life insurers. Comparability between life insurers is enhanced by the disclosure of total premiums and total claims.

17 Disclosures Relating to Life Insurance Contracts and Life Investment Contracts

Financial Performance

17.1 The following components of profit or loss shall be shown, separated between policyholder and shareholder interests:

(a) profit related to movement in life insurance liabilities;

(b) profit related to movement in life investment contract liabilities and movement in assets or liabilities arising in respect of the management services element of life investment contracts;

(c) investment earnings on assets in excess of policy liabilities; and

(d) other items, separated into material components.

17.2 The following components of profit related to movements in life insurance liabilities, life investment contract liabilities and assets or liabilities arising in respect of the management services element of life investment contracts shall be shown:

(a) planned margins of revenues over expenses;

(b) the difference between actual and assumed experience;

(c) the effects of changes to underlying assumptions;

(d) **loss recognition on groups of related products or reversal of previously recognised losses required by paragraph 8.6; and**

(e) **other movements, separated into material components.**

Restrictions on Assets

17.3 Restrictions attaching to assets held for the benefit of policyholders shall be disclosed.

17.3.1 There are a number of restrictions on the use of assets invested for policyholders in *statutory funds*. It is important that these restrictions be disclosed so that users of the financial statements can assess their impact.

Guaranteed or Assured Returns of Funds Invested

17.4 A life insurer shall separately disclose:

(a) **in respect of contracts with discretionary participation features, the amount of policy liabilities that relates to the *guaranteed element*;**

(b) **in respect of investment-linked contracts, the amount of policy liabilities subject to investment performance guarantees; and**

(c) **in respect of any other contracts not addressed in (a) or (b) with a fixed or guaranteed termination value, the amount of the current termination values.**

17.4.1 Many life insurers issue contracts that provide some form of guarantee or assurance about the return of funds invested. It is useful for users of life insurers' financial statements to have information about the extent of such guarantees or assurances, since they involve the life insurer bearing investment risks on behalf of policyholders.

Equity

17.5 The following components of equity shall be disclosed:

(a) **retained earnings wholly attributable to shareholders; and**

(b) **retained earnings where the allocation between participating policyholders and shareholders has yet to be determined.**

17.5.1 Information about the different components of retained earnings is useful in meeting the accountability obligations of the life insurer for the whole business and in showing the relative positions of the major stakeholders.

17.5.2 A life insurer that has issued participating business may have "retained profits" generated from that business. In relation to Australian participating policyholders, these "retained profits" are liabilities in accordance with the Life Insurance Act. However, in friendly societies or foreign life insurance operations, "retained profits" may exist which have yet to be allocated between policyholders and shareholders. Such "retained profits" are separately disclosed. It is relevant to note that "retained profits" directly attributable to shareholders may reside in both statutory funds and a shareholder fund.

17.5.3 Where, in friendly societies or foreign life operations, "retained profits" exist, which have yet to be allocated and which are treated as equity then the insurer applies paragraphs 17.5.4 and 17.5.5 to this participating business.

17.5.4 Where a life insurance contract with a discretionary participation feature is issued by a friendly society or foreign life operation, the issuer of such a contract:

(a) may, but need not, recognise the guaranteed element separately from the discretionary participation feature. If the issuer does not recognise them separately, it classifies the whole contract as a liability. If the issuer classifies them separately, it classifies the guaranteed element as a liability;

(b) shall, if it recognises the discretionary participation feature separately from the guaranteed element, classify that feature as either a liability or a separate component of equity. This Standard does not specify how the issuer determines whether that feature is a liability or equity. The issuer may split that feature into liability and equity components and shall use a consistent accounting policy for that split. The issuer shall not classify that feature as an intermediate category that is neither liability nor equity;

(c) may recognise all premiums received as revenue without separating any portion that relates to the equity component. The resulting changes in the guaranteed element and in the portion of the discretionary participation feature classified as a liability shall be recognised in profit or loss. If part of the entire discretionary participation feature is classified in equity, a portion of profit or loss may be attributable to that feature (in the same way that a portion may be attributable to minority interests). The issuer shall recognise the portion of profit or loss attributable to any equity component of a discretionary participation feature as an allocation of profit or loss, not as expense or income (see AASB 101 *Presentation of Financial Statements*);

(d) shall, if the contract contains an embedded derivative within the scope of AASB 9, apply AASB 9 to that embedded derivative; and

(e) shall, in all respects not described in paragraphs 14-20 of AASB 4 and paragraphs 34(a)-(d) of AASB 4, continue its existing accounting policies for such contracts, unless it changes those accounting policies in a way that complies with paragraphs 21-30 of AASB 4.

17.5.5 The requirements in paragraph 17.5.4 also apply to a life investment contract issued by a friendly society or foreign life insurer that contains a discretionary participation feature. In addition:

(a) if the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraph 8.6 to the whole contract (i.e. both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying AASB 9 to the guaranteed element;

(b) if the issuer classifies part or all of the discretionary participation feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying AASB 9 to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 2.2.2 exempts that option from measurement at fair value. The issuer need not disclose the amount that would result from applying AASB 9 to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher;

(c) although these contracts are financial instruments, the issuer may continue to recognise the premiums for those contracts as revenue and recognise as an expense the resulting increase in the carrying amount of the liability, subject to the requirements of paragraphs 5.1 and 5.2; and

(d) although these contracts are financial instruments, an issuer applying paragraph 20(b) of AASB 7 to contracts with a discretionary participation feature shall disclose the total interest expense recognised in profit or loss, but need not calculate such interest expense using the effective interest method.

Regulatory Capital Information

17.8 A life insurer shall disclose the regulatory capital position of each statutory fund. In consolidated financial statements a group shall disclose the regulatory capital position of each life insurer in the group.

Managed Funds and Other Fiduciary Activities

17.9 The nature and amount of the life insurer's activities relating to managed funds and trust activities, and whether arrangements exist to ensure that such activities are managed independently from its other activities, shall be disclosed.

Actuarial Information

17.10 The following shall be disclosed in notes:

(a) if other than the end of the reporting period, the effective date of the actuarial report on policy liabilities and regulatory capital reserves;

(b) the name and qualifications of the actuary;

(c) whether the amount of policy liabilities has been determined in accordance with the requirements of the Life Insurance Act; and

(d) whether the actuary is satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined.

Assets Backing Life Insurance Liabilities or Life Investment Contract Liabilities

17.11 An insurer shall disclose the process used to determine which assets back life insurance liabilities or life investment contract liabilities.

Other Disclosures

17.12.1 Australian Accounting Standards and the Life Insurance Act differ in their requirements. Accordingly, life insurers are encouraged to disclose a reconciliation between:

(a) the profit for the reporting period reported under Australian Accounting Standards and the profit for the reporting period reported under the Life Insurance Act; and

(b) the retained earnings at the end of the reporting period in accordance with Australian Accounting Standards and the retained earnings at the end of the reporting period in accordance with the Life Insurance Act.

17.13.1 This Standard addresses disclosure requirements in relation to life insurance contracts and certain disclosure requirements in relation to life investment contracts. Other Australian Accounting Standards may be relevant to a life insurer's financial statements. In particular, the disclosure requirements in AASB 7 would normally be relevant to life insurers.

18 Disaggregated Information

Statutory Funds and the Shareholder Fund

18.1 For each statutory fund and for the shareholder fund the following shall be disclosed:

(a) investment assets;

(b) other assets;

(c) life insurance liabilities;

(d) life investment contract liabilities and assets or liabilities arising in respect of the management services element of life investment contracts;

(e) liabilities other than life insurance liabilities or life investment contract liabilities;

(f) retained earnings, showing the amount directly attributable to shareholders and other retained earnings;

(g) premium revenue split between life insurance contracts and life investment contracts;

(h) investment income;

(i) claims expense split between life insurance contracts and life investment contracts;

(j) other operating expenses;

(k) investment income paid or allocated to policyholders;

(l) profit or loss before tax;

(m) profit or loss after tax; and

(n) transfers to or from other funds.

18.1.1 Disaggregated information for each life fund and the shareholder fund is useful because, under Australian legislation, each life insurer may have more than one fund and, in general, the assets of each life fund are only available to meet the liabilities and expenses of that life fund.

Investment-linked and Non-investment-linked Business

18.2 A life insurer shall disclose the information required by paragraphs 18.1(a) to 18.1(m) disaggregated between those amounts relating to investment-linked business and those relating to *non-investment-linked business*.

18.2.1 The risks and potential rewards for a life insurer differ substantially as between investment-linked business and non-investment-linked business. Accordingly, disaggregated information about these is considered to be useful in assessing the financial performance and financial position of a life insurer. The information required by paragraph 18.2 is for the entity's life insurance business as a whole; it is not required for each life fund.

18.2.2 [Deleted by the AASB]

Imputed Inflows and Outflows

18.3 Disclosures required by paragraphs 18.1 and 18.2 shall include all imputed inflows and outflows as income and expenses where they can be reliably measured.

18.3.1 As discussed in paragraph 11.1.1, life insurers often impute inflows and outflows to different classes of policyholders and shareholders to help ensure that they are treated equitably. Whereas, in relation to the statement of comprehensive income and the statement of financial position, paragraph 11.1 only permits the recognition of imputed inflows and outflows relating to transactions with external parties, paragraph 18.3 requires all imputed inflows and outflows to be included in the disaggregated information to reflect the performance of each segment of the life insurer.

19 Transitional Provisions

19.1 An entity need not apply the disclosure requirements in this Standard to comparative information that relates to annual periods beginning before 1 January 2005, except for the disclosures required by paragraphs 14.1.1(a) and 14.1.1(b) about accounting policies, and recognised assets, liabilities, income and expense and cash flows.

19.2 When an entity applies the disclosure requirements in this Standard to comparative information that relates to annual periods beginning before 1 January 2005, if it is impracticable to apply a particular requirement of this Standard to comparative information that relates to annual periods beginning before 1 January 2005, an entity shall disclose that fact. AASB 108 explains the term "impracticable".

19.3 In applying paragraph 15.1.1(b)(iii), an entity need not disclose information about claims development that occurred earlier than five years before the end of the first annual reporting period in which it applies this Standard. Furthermore, if it is impracticable, when an entity first applies this Standard, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information that complies with this Standard, the entity shall disclose that fact.

19.3.1 There are also references to transitional measurement requirements in paragraphs 10.2-10.2.2, 10.5, 10.6, 10.7, 10.7.2 and 12.1.

19.4-19.5 [Deleted by the AASB]

20 Definitions

20.1 In this Standard:

***acquisition costs* means the fixed and variable costs of acquiring new business, including commissions and similar distribution costs, and costs of accepting, issuing and initially recording policies**
(Acquisition costs relate to the costs incurred in acquiring specific life insurance contracts during the reporting period. They do not include the general growth and development costs incurred by a life insurer.)

***cedant* means the policyholder under a life reinsurance contract**

***deposit component* means a contractual component that is not accounted for as a derivative under AASB 9 *Financial Instruments* and would be within the scope of AASB 9 *Financial Instruments* if it were a separate instrument**

***direct insurance contract* means an insurance contract that is not a reinsurance contract**

***discretionary participation feature* means a contractual right to receive, as a supplement to *guaranteed benefits*, additional benefits:**

(a) that are likely to be a significant portion of the total contractual benefits;

(b) whose amount or timing is contractually at the discretion of the issuer; and

(c) that are contractually based on:

(i) the performance of a specified pool of contracts or a specified type of contract;

(ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

(iii) the profit or loss of the company, fund or other entity that issues the contract

***fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See AASB 13.)**

***financial risk* means the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract**

***general insurance contract* means an insurance contract that is not a life insurance contract**

***guaranteed benefits* means payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer**

***guaranteed element* means an obligation to pay guaranteed benefits included in a contract that contains a discretionary participation feature**

***insurance asset* means an insurer's net contractual rights under an insurance contract**

***insurance contract* means a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder**
(Refer to Appendix for additional guidance in applying this definition.)

***insurance liability* means an insurer's net contractual obligations under an insurance contract**

***insurance risk* means risk, other than financial risk, transferred from the holder of a contract to the issuer**

***insured event* means an uncertain future event covered by an insurance contract and creates insurance risk**

***insurer* means the party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs**

***investment-linked* means where the benefit amount under a life insurance contract or life investment contract is directly linked to the market value of the investments held in the particular investment-linked fund**

***liability adequacy test* means an assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of the related deferred acquisition costs or related intangible assets decreased) based on a review of future cash flows**

***life insurance business* means all life insurance contract and life investment contract business conducted by a life insurer**

***life insurance contract* means an insurance contract, or a financial instrument with a discretionary participation feature, regulated under the Life Insurance Act, and similar contracts issued by entities operating outside Australia**
(Private health insurance contracts issued under the *National Health Act 1953* but written by friendly societies registered under the Life Insurance Act, are not life insurance contracts but are general insurance contracts.)

***life insurance liability* means a life insurer's net contractual obligations under a life insurance contract**

***life insurer* means an entity registered under the *Life Insurance Act 1995*, that issues life insurance contracts or life investment contracts, and similar entities operating outside Australia**

life investment contract **means a contract which is regulated under the** ***Life Insurance Act 1995*** **but which does not meet the definition of a life insurance contract in this Standard, and similar contracts issued by entities operating outside Australia**

life investment contract liability **means a life insurer's net contractual obligations under a life investment contract which arise under the financial instrument component of a life investment contract**

life reinsurance contract **means a life insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant**

non-investment-linked business **means life insurance business other than investment-linked business**

policyholder **means a party that has a right to compensation under an insurance contract if an insured event occurs**

policy liability **means a liability that arises under a life insurance contract or a life investment contract including any asset or liability arising in respect of the management services element of a life investment contract**

reinsurance assets **means a cedant's net contractual rights under a reinsurance contract**

reinsurance contract **means an insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant**

reinsurer **means the party that has an obligation under a reinsurance contract to compensate a cedant if an insured event occurs**

separate financial statements **are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees**

statutory fund **means a statutory fund under the** ***Life Insurance Act 1995***

unbundle **means to account for the components of a contract as if they were separate contracts**

20.2 The following terms are defined in AASB 132 *Financial Instruments: Presentation* and are used in this Standard with the meaning specified in AASB 132:

(a) financial asset;

(b) financial instrument; and

(c) financial liability.

Appendix A
Definition of an Insurance Contract

This appendix is an integral part of AASB 1038.

1 This Appendix gives guidance on the definition of an insurance contract in section 20 of this Standard. It addresses the following issues:

(a) the term 'uncertain future event' (paragraphs 2-4);

(b) insurance risk and other risks (paragraphs 5-14);

(c) examples of life insurance contracts (paragraphs 15-18);

(d) significant insurance risk (paragraphs 19-25); and

(e) changes in the level of insurance risk (paragraphs 26 and 27).

Uncertain Future Event

2 Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:

(a) whether an insured event will occur;

(b) when it will occur; or

(c) how much the insurer will need to pay if it occurs.

3 In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.

4 Some insurance contracts cover events that have already occurred, but whose financial effect is still uncertain. An example is a reinsurance contract that covers the direct insurer against adverse development of claims already reported by policyholders. In such contracts, the insured event is the discovery of the ultimate cost of those claims.

Distinction between Insurance Risk and Other Risks

5 The definition of an insurance contract refers to insurance risk, which this Standard defines as risk, other than *financial risk*, transferred from the holder of a contract to the issuer. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

6 The definition of financial risk in section 20 of this Standard includes a list of financial and non-financial variables. That list includes non-financial variables that are not specific to a party to the contract, such as an index of earthquake losses in a particular region or an index of temperatures in a particular city. It excludes non-financial variables that are specific to a party to the contract.

7 Some contracts expose the issuer to financial risk, in addition to significant insurance risk. For example, many life insurance contracts both guarantee a minimum rate of return to policyholders (creating financial risk) and promise death benefits that at some times significantly exceed the policyholder's account balance (creating insurance risk in the form of mortality risk). Such contracts are insurance contracts.

8 Under some contracts, an insured event triggers the payment of an amount linked to a price index. Such contracts are insurance contracts, provided the payment that is contingent on the insured event can be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because payment is triggered by an uncertain event – the survival of the annuitant. The link to the price index is an embedded derivative, but it also transfers insurance risk. If the resulting transfer of insurance risk is significant, the embedded derivative meets the definition of an insurance contract, in which case it need not be separated and measured at fair value (see paragraph 2.2.1 of this Standard).

9 The definition of insurance risk refers to risk that the insurer accepts from the policyholder. In other words, insurance risk is a pre-existing risk transferred from the policyholder to the insurer. Thus, a new risk created by the contract is not insurance risk.

10 The definition of an insurance contract refers to an adverse effect on the policyholder. The definition does not limit the payment by the insurer to an amount equal to the financial impact of the adverse event. For example, the definition does not limit payment under a term life insurance contract to the financial loss suffered by the deceased's dependants, nor does it preclude the payment of predetermined amounts to quantify the loss caused by death or an accident.

11 Some contracts require a payment if a specified uncertain event occurs, but do not require an adverse effect on the policyholder as a precondition for payment. Such a contract is not an insurance contract even if the holder uses the contract to mitigate an underlying risk exposure. For example, if the holder uses a derivative to hedge an underlying non-financial variable that is correlated with cash flows from an asset of the entity, the derivative is not an insurance contract because payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. Conversely, the definition of an insurance contract refers to an uncertain event for which an adverse effect on the policyholder is a contractual precondition for payment. This contractual precondition does not require the insurer to investigate whether the event actually caused an adverse effect, but permits the insurer to deny payment if it is not satisfied that the event caused an adverse effect.

12 Lapse or persistency risk (i.e. the risk that the counterparty will cancel the contract earlier or later than the issuer had expected in pricing the contract) is not insurance risk because the payment to the counterparty is not contingent on an uncertain future event that adversely affects the counterparty. Similarly, expense risk (i.e. the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in costs associated with insured events) is not insurance risk because an unexpected increase in expenses does not adversely affect the counterparty.

13 Therefore, a contract that exposes the issuer to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the issuer to insurance risk. However, if the issuer of that contract mitigates that risk by using a second contract to transfer part of that risk to another party, the second contract exposes that other party to insurance risk.

14 An insurer can accept significant insurance risk from the policyholder only if the insurer is an entity separate from the policyholder. In the case of a mutual insurer, the mutual accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively in their capacity as owners, the mutual has still accepted the risk that is the essence of an insurance contract.

Examples of Life Insurance Contracts

15 The following are examples of contracts that are life insurance contracts, if the transfer of insurance risk is significant:

(a) life insurance contracts (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance);

(b) life-contingent annuities and pensions (i.e. contracts that provide compensation for the uncertain future event – the survival of the annuitant or pensioner – to assist the annuitant or pensioner in maintaining a given standard of living, which would otherwise be adversely affected by his or her survival); and

(c) life reinsurance contracts.

16 The following are examples of items that are not life insurance contracts:

(a) investment contracts that are governed under the *Life Insurance Act 1995* but do not expose the insurer to significant insurance risk, for example life insurance contracts in which the insurer bears no significant mortality risk (such contracts are non-insurance financial instruments or service contracts: see paragraphs 17 and 18 of this Appendix);

(b) contracts that have the legal form of insurance, but pass all significant insurance risk back to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder as a direct result of insured losses, for example some financial reinsurance contracts or some group contracts (such contracts are normally non-insurance financial instruments or service contracts: see paragraphs 17 and 18 of this Appendix);

(c) self-insurance, in other words retaining a risk that could have been covered by insurance (there is no insurance contract because there is no agreement with another party);

(d) contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, that the event adversely affects the policyholder. However, this does not preclude the specification of a predetermined payout to quantify the loss caused by a specified event such as death or an accident;

(e) derivatives that expose one party to financial risk but not insurance risk, because they require that party to make payment based solely on changes in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (see AASB 9); and

(f) general insurance contracts.

17 If the contracts described in paragraph 16 of this Appendix create financial assets or financial liabilities, they are within the scope of AASB 9. Among other things, this means that the parties to the contract use what is sometimes called deposit accounting, which involves the following:

(a) one party recognises the consideration received as a financial liability, rather than as revenue; and

(b) the other party recognises the consideration paid as a financial asset, rather than as an expense.

18 If the contracts described in paragraph 16 of this Appendix do not create financial assets or financial liabilities, AASB 15 applies. Under AASB 15, revenue is recognised when (or as) an entity satisfies a performance obligation by transferring a promised good or service to a customer in an amount that reflects the consideration to which the entity expects to be entitled.

Significant Insurance Risk

19 A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs 5 to 14 of this Appendix discuss insurance risk. The following paragraphs discuss the assessment of whether insurance risk is significant.

20 Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is extremely unlikely or even if the expected (i.e. probability-weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

21 The additional benefits described in paragraph 20 of this Appendix refer to amounts that exceed those that would be payable if no insured event occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and claims assessment costs, but exclude:

(a) the loss of the ability to charge the policyholder for future services. For example, in an investment-linked life insurance contract, the death of the policyholder means that the insurer can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the insurer does not reflect insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of the client. Therefore, the potential loss of future investment management fees is not relevant in assessing how much insurance risk is transferred by a contract;

(b) waiver on death of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, the waiver of these charges does not compensate the policyholder for a pre-existing risk. Hence, they are not relevant in assessing how much insurance risk is transferred by a contract;

(c) a payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay one million currency units if an asset suffers physical damage causing an insignificant economic loss of one currency unit to the holder. In this contract, the holder transfers to the insurer the insignificant risk of losing one currency unit. At the same time, the contract creates non-insurance risk that the issuer will need to pay 999,999 currency units if the specified event occurs. Because the issuer does not accept significant insurance risk from the holder, this contract is not an insurance contract; and

(d) possible reinsurance recoveries. The insurer accounts for these separately.

22 An insurer shall assess the significance of insurance risk contract by contract, rather than by reference to materiality to the financial statements[1]. Thus, insurance risk may be significant even if there is a minimal

1 For this purpose, contracts entered into simultaneously with a single counterparty (or contracts that are otherwise interdependent) form a single contract.

probability of material losses for a whole book of contracts. This contract-by-contract assessment makes it easier to classify a contract as an insurance contract. However, if a relatively homogeneous book of small contracts is known to consist of contracts that all transfer insurance risk, an insurer need not examine each contract within that book to identify a few non-derivative contracts that transfer insignificant insurance risk.

23 It follows from paragraphs 20 to 22 of this Appendix that if a contract pays a death benefit exceeding the amount payable on survival, the contract is an insurance contract unless the additional death benefit is insignificant (judged by reference to the contract rather than to an entire book of contracts). As noted in paragraph 21(b) of this Appendix, the waiver on death of cancellation or surrender charges is not included in this assessment if this waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life contingent payments are insignificant.

24 Paragraph 20 of this Appendix refers to additional benefits. These additional benefits could include a requirement to pay benefits earlier if the insured event occurs earlier and the payment is not adjusted for the time value of money. An example is whole life insurance for a fixed amount (in other words, insurance that provides a fixed death benefit whenever the policyholder dies, with no expiry date for the cover). It is certain that the policyholder will die, but the date of death is uncertain. The insurer will suffer a loss on those individual contracts for which policyholders die early, even if there is no overall loss on the whole book of contracts.

25 If an insurance contract is unbundled into a deposit component and an insurance component, the significance of insurance risk transfer is assessed by reference to the insurance component. The significance of insurance risk transferred by an embedded derivative is assessed by reference to the embedded derivative.

Changes in the Level of Insurance Risk

26 Some contracts do not transfer any insurance risk to the issuer at inception, although they do transfer insurance risk at a later time. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the current annuity rates charged by the insurer to other new annuitants when the policyholder exercises the option. The contract transfers no insurance risk to the issuer until the option is exercised, because the insurer remains free to price the annuity on a basis that reflects the insurance risk transferred to the insurer at that time. However, if the contract specifies the annuity rates (or a basis for setting the annuity rates), the contract transfers insurance risk to the issuer at inception.

27 A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Compilation details
Accounting Standard AASB 1038 *Life Insurance Contracts* (as amended)

This compiled Standard applies to annual reporting periods beginning on or after 1 January 2020 but before 1 January 2021. It takes into account amendments up to and including 21 May 2019 and was prepared on 2 March 2020 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 1038 (July 2004) as amended by other Accounting Standards, which are listed in the Table below.

Table of Standards

Standard	Date made	FRL identifier	Commence-ment date	Effective date *(annual reporting periods … on or after …)*	Application, saving or transitional provisions
AASB 1038	15 Jul 2004	F2005B01402	24 May 2005	*(beginning)* 1 Jan 2005	–
AASB 2005-4	9 Jun 2005	F2005L01708	30 Jun 2005	*(beginning)* 1 Jan 2006	see (a) below
AASB 2005-10	5 Sep 2005	F2005L02840	27 Sep 2005	*(beginning)* 1 Jan 2007	see (b) below
AASB 2005-12	8 Dec 2005	F2005L04207	24 Dec 2005	*(ending)* 31 Dec 2005	see (c) below
AASB 2007-3	26 Feb 2007	F2007L00551	8 Mar 2007	*(beginning)* 1 Jan 2009	see (d) below
AASB 2007-4	30 Apr 2007	F2007L01669	16 Jun 2007	*(beginning)* 1 Jul 2007	see (e) below
AASB 2007-8	24 Sep 2007	F2007L04130	26 Oct 2007	*(beginning)* 1 Jan 2009	see (f) below
AASB 2007-10	13 Dec 2007	F2008L04269	29 Oct 2008	*(beginning)* 1 Jan 2009	see (f) below
AASB 2008-5	24 Jul 2008	F2008L03030	16 Aug 2008	*(beginning)* 1 Jan 2009	see (g) below
AASB 2009-2	22 Apr 2009	F2009L01638	9 May 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Apr 2009	see (h) below
AASB 2009-6	25 Jun 2009	F2009L02729	17 Jul 2009	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (i) below
Erratum	5 Oct 2009	n/a	n/a	*(beginning)* 1 Jan 2009 and *(ending)* 30 Jun 2009	see (j) below
AASB 2009-11	7 Dec 2009	F2009L04690	23 Dec 2009	*(beginning)* 1 Jan 2015	see (k) below
AASB 2010-5	27 Oct 2010	F2010L03081	25 Nov 2010	*(beginning)* 1 Jan 2011	see (l) below
AASB 2010-7	6 Dec 2010	F2011L00315	1 Mar 2011	*(beginning)* 1 Jan 2015	see (m) below
AASB 2011-7	29 Aug 2011	F2011L02017	5 Oct 2011	*(beginning)* 1 Jan 2013	see (n) below
AASB 2011-8	2 Sep 2011	F2011L02038	8 Oct 2011	*(beginning)* 1 Jan 2013	see (o) below
AASB 2012-10	18 Dec 2012	F2013L00080	23 Jan 2013	*(beginning)* 1 Jan 2013	see (p) below
AASB 2013-2	13 Mar 2013	F2013L00579	29 Mar 2014	*(ending)* 31 Mar 2013	see (q) below
AASB 2013-7	14 Oct 2013	F2013L01816	22 Oct 2013	*(beginning)* 1 Jan 2014	see (r) below
AASB 2013-9	20 Dec 2013	F2014L00370	1 Apr 2014	Pt A *(ending)* 20 Dec 2013 Pt B *(ending)* 1 Jan 2014	see (s) below see (t) below
AASB 2014-5	12 Dec 2014	F2015L00107	12 Dec 2014	*(beginning)* 1 Jan 2018	see (u) below
AASB 2014-7	17 Dec 2014	F2015L00135	17 Dec 2014	*(beginning)* 1 Jan 2018	see (v) below
AASB 2015-8	22 Oct 2015	F2015L01840	31 Dec 2016	*(beginning)* 1 Jan 2017	see (w) below
AASB 2016-7	9 Dec 2016	F2017L00043	31 Dec 2016	*(beginning)* 1 Jan 2018	see (x) below
AASB 17	19 Jul 2017	F2017L01184	31 Dec 2020	*(beginning)* 1 Jan 2021	not compiled*
AASB 2019-1	21 May 2019	F2019L00966	31 Dec 2019	*(beginning)* 1 Jan 2020	see (y) below

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual periods beginning on or after 1 January 2020 but before 1 January 2021.

(a) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2006.

(b) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2007.

(c) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005.

(d) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 8 *Operating Segments* is also applied to such periods.

(e) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 July 2007.

(f) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods.

(g) Entities may elect to apply this Standard, or its amendments to individual Standards, to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009.

(h) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009 and to annual reporting periods beginning on or after 1 January 2009 that end before 30 April 2009.

(i) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2009, provided that AASB 101 *Presentation of Financial Statements* (September 2007) is also applied to such periods, and to annual reporting periods beginning on or after 1 January 2009 that end before 30 June 2009.

(j) Entities may elect to apply this Erratum to annual reporting periods beginning on or after 1 January 2005, provided that AASB 2009-6 *Amendments to Australian Accounting Standards* is also applied to such periods.

(k) AASB 2009-11 has been amended by AASB 2010-10 (made 31 December 2010) and AASB 2012-6 (made 10 September 2012).

Entities may elect to apply this Standard to annual reporting periods ending on or after 31 December 2009 that begin before 1 January 2015, provided that AASB 9 (2009) *Financial Instruments* is also applied to such periods.

(l) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2011.

(m) AASB 2010-7 has been amended by AASB 2010-10 (made 31 December 2010) and AASB 2012-6 (made 10 September 2012).

Entities may elect to apply this Standard as set out in paragraph 6 of AASB 2010-7.

(n) AASB 2011-7 has been amended by AASB 2012-6 (made 10 September 2012) and AASB 2012-10 (made 18 December 2012).

For-profit entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013. The Standard applies for not-for-profit entities to annual reporting periods beginning on or after 1 January 2014. Not-for-profit entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2013 but before 1 January 2014. If an entity elects to apply this Standard to such annual reporting periods, it shall apply AASB 10 *Consolidated Financial Statements* and associated Standards to such periods.

(o) AASB 2011-8 has been amended by AASB 2011-10 (made 5 September 2011) and AASB 2012-6 (made 10 September 2012).

Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013, provided that AASB 13 *Fair Value Measurement* is also applied to such periods.

(p) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2013.

(q) Entities may elect to apply this Standard to annual reporting periods ending on or after 1 January 2013 but before 31 March 2013.

(r) Entities may elect to apply this Standard to annual reporting periods ending on or after 1 January 2005 but before 1 January 2014, provided that AASB 10 *Consolidated Financial Statements* is also applied to such periods.

(s) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 that end before 20 December 2013, provided that AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* and AASB 1048 *Interpretation of Standards* (December 2013) are also applied to the such periods.

(t) Early application of Part B of this Standard is not permitted.

(u) Entities may elect to apply this Standard to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2018, provided that AASB 15 *Revenue from Contracts with Customers* is also applied to such periods. AASB 2015-8 updated the application date of the amendments in this Standard (and of AASB 15) to 1 January 2018.

(v) Entities may elect to apply this Standard to annual reporting periods beginning on or after 24 July 2014 but before 1 January 2018, provided that AASB 9 *Financial Instruments* (2014) is also applied to such periods.

(w) The amendments made by AASB 2014-5 are no longer required to apply to annual reporting periods beginning on or after 1 January 2017 but before 1 January 2018, as a consequence of AASB 2015-8 deferring the effective date of AASB 15 (and its consequential amendments in AASB 2014-5) from 1 January 2017 to 1 January 2018.

(x) AASB 2016-7 deferred the effective date of AASB 15 (and its consequential amendments in AASB 2014-5) for not-for-profit entities to annual reporting periods beginning on or after 1 January 2019, instead of 1 January 2018. However, earlier application of AASB 1038 (2004) incorporating the text that relates to AASB 15 is permitted, provided that AASB 15 is also applied.

(y) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.

Table of amendments

Paragraph affected	How affected	By … [paragraph/page]
AusCF1	added	AASB 2019-1 [page 25]
1.1	amended amended	AASB 2007-4 [105] AASB 2007-10 [99]
1.1.1	deleted	AASB 2013-7 [7]
1.4	deleted	AASB 2013-9B [37, 38]
1.4.1	deleted	AASB 2013-9B [41]
2.1.6	amended	AASB 2005-10 [46]
2.2.1	amended amended	AASB 2009-11 [57] AASB 2010-7 [7, 59]
2.2.2	amended	AASB 2010-7 [58]
4 (section heading)	amended	AASB 2013-7 [6]
4.1 (and preceding heading)	deleted	AASB 2013-7 [6, 7]
4.1.1	deleted	AASB 2013-7 [7]
4.1.2	amended	AASB 2005-12 [5]
4.2 (and preceding heading)	deleted	AASB 2013-7 [8]
4.2.1 - 4.2.2	deleted	AASB 2013-7 [8]
5.2.4	deleted	Erratum, Oct 2009 [7]

Paragraph affected	How affected	By … [paragraph/page]
8.4.2	amended	Erratum, Oct 2009 [8]
9.2.2	amended	AASB 2005-12 [6]
10.1.1	amended	AASB 2009-6 [101]
10.2	amended amended amended amended	AASB 2005-4 [26] AASB 2007-4 [109] AASB 2009-11 [56] AASB 2010-7 [7, 58]
10.2.1	amended amended amended amended	AASB 2005-4 [26] AASB 2009-11 [57] AASB 2010-7 [7, 59] AASB 2014-7 [56]
10.2.2	amended amended amended amended	AASB 2005-4 [27] AASB 2009-11 [57] AASB 2010-7 [7, 59] AASB 2014-7 [56]
10.3	amended amended	AASB 2007-4 [109] AASB 2011-8 [104]
10.4.1-10.4.2	deleted	AASB 2012-10 [67]
10.5	amended amended amended amended amended	AASB 2005-4 [28] AASB 2005-12 [7] AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [55, A15]
10.5.1	amended amended amended	AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [55, A15]
10.6	amended amended amended amended amended	AASB 2005-4 [29] AASB 2005-12 [8] AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [55, A15]
10.6.1	amended amended amended	AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [55, A15]
10.7	amended amended amended amended amended	AASB 2005-4 [30] AASB 2008-5 [80] AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [55, A15]
10.7.1	amended amended amended	AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [56, A16]
10.7.2	amended amended amended amended amended	AASB 2005-4 [31] AASB 2008-5 [80] AASB 2009-11 [56] AASB 2010-7 [7, 58] AASB 2011-7 [56, A16]
10.7.3	deleted	AASB 2005-12 [9]
12.1	amended amended	AASB 2005-4 [32] AASB 2010-7 [58]
12.1.1	renumbered as 12.1.2 added amended	AASB 2005-4 [33] AASB 2005-4 [33] AASB 2010-7 [58]
12.1.2	amended amended amended amended	AASB 2007-4 [109] AASB 2010-5 [64] AASB 2010-7 [58] AASB 2014-5 [43]
14.1.4	amended	AASB 2007-4 [109]
14.1.5	amended	AASB 2007-4 [109]
14.1.7	amended amended	AASB 2013-9A [31] AASB 2019-1 [page 25]
AusCF14.1.7	added	AASB 2019-1 [page 25]
15.1 (and preceding heading)	amended amended	AASB 2005-10 [47] AASB 2007-4 [109]

Paragraph affected	How affected	By … [paragraph/page]
15.1.1	amended amended amended	AASB 2005-10 [47] AASB 2007-4 [109] AASB 2009-2 [14]
15.1.2	amended	AASB 2005-10 [49]
15.1.3 (and preceding heading)	added amended	AASB 2005-10 [48] AASB 2007-4 [109]
17.5.2	amended	AASB 2005-12 [10]
17.5.3	amended	AASB 2005-12 [11]
17.5.4	amended amended	AASB 2005-12 [12] AASB 2010-7 [58]
17.5.5	amended amended amended amended	AASB 2005-10 [50, 51] AASB 2005-12 [13] AASB 2007-4 [106, 107, 109] AASB 2010-7 [58]
17.8 (and preceding heading)	amended	AASB 2013-2 [6]
17.8.1	deleted	AASB 2013-2 [6]
17.10	amended	AASB 2013-2 [6]
17.13.1	amended	AASB 2005-10 [52]
18.2.1	amended	AASB 2007-4 [109]
18.2.2 (and preceding heading)	deleted	AASB 2007-3 [18]
19.3	amended	AASB 2005-10 [53]
19.4	added deleted	AASB 2009-11 [57] AASB 2010-7 [7, 59]
19.5	added deleted	AASB 2010-7 [59] AASB 2014-7 [56]
20.1	amended amended amended amended	AASB 2007-4 [108] AASB 2010-5 [65] AASB 2010-7 [59] AASB 2011-8 [12]
20.2	added	AASB 2010-5 [66]
Appendix, 16	amended amended	AASB 2007-4 [109] AASB 2010-7 [58]
Appendix, 17	amended	AASB 2010-7 [58]
Appendix, 18	amended	AASB 2014-5 [44]

General Terminology Amendments

The following amendments are not shown in the above Table of Amendments:

References to 'financial report(s)' were amended to 'financial statements' by AASB 2007-8 and AASB 2007-10, except in relation to specific Corporations Act references and interim financial reports.

References to 'income statement' and 'balance sheet' were amended to 'statement of comprehensive income' and 'statement of financial position' respectively by AASB 2007-8.

References to 'reporting date' and 'each reporting date' were amended to 'end of the reporting period' and 'the end of each reporting period' respectively by AASB 2007-8.