

Insurance Contracts

FOR-PROFIT (FP) ENTITIES

This compiled Standard applies to annual periods beginning on or after 1 January 2018 but before 1 January 2019. Earlier application is not permitted. It incorporates relevant amendments made up to and including 19 July 2017.

NOT-FOR-PROFIT (NFP) ENTITIES – Early Application Only

This compiled Standard does not apply mandatorily to NFP entities. However, earlier application is permitted for annual reporting periods beginning on or after 1 January 2018 but before 1 January 2019.

Prepared on 20 March 2018 by the staff of the Australian Accounting Standards Board.

Compilation no. 2

Compilation date: 31 December 2017



Australian Government

**Australian Accounting
Standards Board**

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AVAILABLE ON THE AASB WEBSITE

Implementation guidance on IFRS 4

Basis for Conclusions on IFRS 4

Australian Accounting Standard AASB 4 *Insurance Contracts* (as amended) is set out in paragraphs 1 – 49 and Appendices A – C. 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 4 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. 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 4 *Insurance Contracts* as amended incorporates IFRS 4 *Insurance Contracts* as issued and amended by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IFRS 4) are identified with the prefix “Aus”. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB 4 also comply with IFRS 4.

Not-for-profit entities’ compliance with IFRS 4 will depend on whether any “Aus” paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IFRS 4.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

Accounting Standard AASB 4

The Australian Accounting Standards Board made Accounting Standard AASB 4 *Insurance Contracts* under section 334 of the *Corporations Act 2001* on 7 August 2015.

This compiled version of AASB 4 applies to annual periods beginning on or after 1 January 2018 but before 1 January 2019 for for-profit entities. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 19 July 2017 (see Compilation Details).

Accounting Standard AASB 4 *Insurance Contracts*

Objective

- 1 The objective of this Standard, in conjunction with AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, is to specify the financial reporting for *insurance contracts* by any entity that issues such contracts (described in this Standard as an *insurer*) until the AASB and the IASB complete the second phase of the project on insurance contracts. In particular, this Standard requires:
- (a) limited improvements to accounting by insurers for insurance contracts.
 - (b) disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

Scope

- 2 An entity shall apply this Standard to:
- (a) insurance contracts (including *reinsurance contracts*) that it issues and reinsurance contracts that it holds.
 - (b) financial instruments that it issues with a *discretionary participation feature* (see paragraph 35). AASB 7 *Financial Instruments: Disclosures* requires disclosure about financial instruments, including financial instruments that contain such features.
- 3 This Standard does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see AASB 132 *Financial Instruments: Presentation*, AASB 7 and AASB 9 *Financial Instruments*), except:
- (a) paragraph 20A permits insurers that meet specified criteria to apply a temporary exemption from AASB 9;
 - (b) paragraph 35B permits insurers to apply the overlay approach to designated financial assets; and
 - (c) paragraph 45 permits insurers to reclassify in specified circumstances some or all of their financial assets so that the assets are measured at fair value through profit or loss.
- Aus3.1 Notwithstanding paragraph 2, to comply with the requirements of this Standard, an entity shall apply:
- (a) AASB 1023 *General Insurance Contracts* to *general insurance contracts*, except for fixed-fee service contracts that meet the definition of an insurance contract under this Standard; and
 - (b) AASB 1038 *Life Insurance Contracts* to *life insurance contracts*.

Where this Standard provides an accounting policy choice, an entity shall apply that choice in the context of the requirements specified in AASB 1023 and AASB 1038, when applicable.

- Aus3.2 This Standard includes only limited guidance in accounting for insurance contracts and disclosure requirements. AASB 1023 and AASB 1038 address all aspects of recognition, measurement and disclosure of general insurance contracts and life insurance contracts. The requirements of those Standards address a wider range of accounting requirements than this Standard, but enable simultaneous compliance with this Standard.

- 4 An entity shall not apply this Standard to:
- (a) product warranties issued directly by a manufacturer, dealer or retailer (see AASB 15 *Revenue from Contracts with Customers* and AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*).
 - (b) employers' assets and liabilities under employee benefit plans (see AASB 119 *Employee Benefits* and AASB 2 *Share-based Payment*) and retirement benefit obligations reported by defined benefit retirement plans (see AASB 1056 *Superannuation Entities*).
 - (c) contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item (for example, some licence fees, royalties, contingent lease payments and similar items), as well as a lessee's residual value guarantee embedded in a finance lease (see AASB 117 *Leases*, AASB 15 *Revenue from Contracts with Customers* and AASB 138 *Intangible Assets*).
 - (d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either AASB 132, AASB 7 and AASB 9 or AASB 1023 to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.
 - (e) contingent consideration payable or receivable in a business combination (see AASB 3 *Business Combinations*).
 - (f) *direct insurance contracts* that the entity holds (ie direct insurance contracts in which the entity is the *policyholder*). However, a *cedant* shall apply this Standard to reinsurance contracts that it holds.
- 5 For ease of reference, this Standard describes any entity that issues an insurance contract as an insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes. All references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.
- 6 A reinsurance contract is a type of insurance contract. Accordingly, all references in this Standard to insurance contracts also apply to reinsurance contracts.
- Aus6.1 This Standard applies to fixed-fee service contracts, described in paragraphs B6 and B7, which meet the definition of an insurance contract under this Standard.

Embedded derivatives

- 7 AASB 9 requires an entity to separate some embedded derivatives from their host contract, measure them at *fair value* and include changes in their fair value in profit or loss. AASB 9 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract.
- 8 As an exception to the requirements 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 requirements in AASB 9 do apply 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, those requirements also apply 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).
- 9 Paragraph 8 applies equally to options to surrender a financial instrument containing a discretionary participation feature.

Unbundling of deposit components

- 10 Some insurance contracts contain both an insurance component and a *deposit component*. In some cases, an insurer is required or permitted to *unbundle* those components:
- (a) unbundling is required if both the following conditions are met:
 - (i) the insurer can measure the deposit component (including any embedded surrender options) separately (ie without considering the insurance component).

- (ii) the insurer's accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component.
 - (b) unbundling is permitted, but not required, if the insurer can measure the deposit component separately as in (a)(i) but its accounting policies require it to recognise all obligations and rights arising from the deposit component, regardless of the basis used to measure those rights and obligations.
 - (c) unbundling is prohibited if an insurer cannot measure the deposit component separately as in (a)(i).
- 11 The following is an example of a case when an insurer's accounting policies do not require it to recognise all obligations arising from a deposit component. A cedant receives compensation for losses from a *reinsurer*, but the contract obliges the cedant to repay the compensation in future years. That obligation arises from a deposit component. If the cedant's accounting policies would otherwise permit it to recognise the compensation as income without recognising the resulting obligation, unbundling is required.
- 12 To unbundle a contract, an insurer shall:
- (a) apply this Standard to the insurance component.
 - (b) apply AASB 9 to the deposit component.

Recognition and measurement

Temporary exemption from some other Australian Accounting Standards

- 13 Paragraphs 10–12 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* specify criteria for an entity to use in developing an accounting policy if no Standard applies specifically to an item. However, this Standard exempts an insurer from applying those criteria to its accounting policies for:
- (a) insurance contracts that it issues (including related acquisition costs and related intangible assets, such as those described in paragraphs 31 and 32); and
 - (b) reinsurance contracts that it holds.
- 14 Nevertheless, this Standard does not exempt an insurer from some implications of the criteria in paragraphs 10–12 of AASB 108. Specifically, an insurer:
- (a) shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the end of the reporting period (such as catastrophe provisions and equalisation provisions).
 - (b) shall carry out the *liability adequacy test* described in paragraphs 15–19.
 - (c) shall remove an insurance liability (or a part of an insurance liability) from its statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.
 - (d) shall not offset:
 - (i) *reinsurance assets* against the related insurance liabilities; or
 - (ii) income or expense from reinsurance contracts against the expense or income from the related insurance contracts.
 - (e) shall consider whether its reinsurance assets are impaired (see paragraph 20).

Liability adequacy test

- 15 **An insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets, such as those discussed in paragraphs 31 and 32) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.**
- 16 If an insurer applies a liability adequacy test that meets specified minimum requirements, this Standard imposes no further requirements. The minimum requirements are the following:

- (a) The test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.
 - (b) If the test shows that the liability is inadequate, the entire deficiency is recognised in profit or loss.
- 17 If an insurer's accounting policies do not require a liability adequacy test that meets the minimum requirements of paragraph 16, the insurer shall:
- (a) determine the carrying amount of the relevant insurance liabilities¹ less the carrying amount of:
 - (i) any related deferred acquisition costs; and
 - (ii) any related intangible assets, such as those acquired in a business combination or portfolio transfer (see paragraphs 31 and 32). However, related reinsurance assets are not considered because an insurer accounts for them separately (see paragraph 20).
 - (b) determine whether the amount described in (a) is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of AASB 137. If it is less, the insurer shall recognise the entire difference in profit or loss and decrease the carrying amount of the related deferred acquisition costs or related intangible assets or increase the carrying amount of the relevant insurance liabilities.
- 18 If an insurer's liability adequacy test meets the minimum requirements of paragraph 16, the test is applied at the level of aggregation specified in that test. If its liability adequacy test does not meet those minimum requirements, the comparison described in paragraph 17 shall be made at the level of a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio.
- 19 The amount described in paragraph 17(b) (ie the result of applying AASB 137) shall reflect future investment margins (see paragraphs 27–29) if, and only if, the amount described in paragraph 17(a) also reflects those margins.

Impairment of reinsurance assets

- 20 If a cedant's reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognise that impairment loss in profit or loss. 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 all 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.

Temporary exemption from AASB 9

- 20A AASB 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. However, for an insurer that meets the criteria in paragraph 20B, this Standard provides a temporary exemption that permits, but does not require, the insurer to apply AASB 139 *Financial Instruments: Recognition and Measurement* rather than AASB 9 for annual periods beginning before 1 January 2021. An insurer that applies the temporary exemption from AASB 9 shall:**
- (a) **use the requirements in AASB 9 that are necessary to provide the disclosures required in paragraphs 39B–39J of this Standard; and**
 - (b) **apply all other applicable Standards to its financial instruments, except as described in paragraphs 20A–20Q, 39B–39J and 46–47 of this Standard.**
- 20B An insurer may apply the temporary exemption from AASB 9 if, and only if:**
- (a) **it has not previously applied any version of AASB 9², other than only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of AASB 9; and**

¹ The relevant insurance liabilities are those insurance liabilities (and related deferred acquisition costs and related intangible assets) for which the insurer's accounting policies do not require a liability adequacy test that meets the minimum requirements of paragraph 16.

² The Board issued successive principal versions of AASB 9 in 2009, 2010 and 2014.

- (b) its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G.**

20C An insurer applying the temporary exemption from AASB 9 is permitted to elect to apply only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of AASB 9. If an insurer elects to apply those requirements, it shall apply the relevant transition provisions in AASB 9, disclose the fact that it has applied those requirements and provide on an ongoing basis the related disclosures set out in paragraphs 10–11 of AASB 7 (as amended by AASB 9 (2010)).

20D An insurer's activities are predominantly connected with insurance if, and only if:

- (a) the carrying amount of its liabilities arising from contracts within the scope of this Standard, AASB 1023 and AASB 1038, which includes any deposit components or embedded derivatives unbundled from insurance contracts applying paragraphs 7–12 of this Standard, is significant compared to the total carrying amount of all its liabilities; and
- (b) the percentage of the total carrying amount of its liabilities connected with insurance (see paragraph 20E) relative to the total carrying amount of all its liabilities is:
 - (i) greater than 90 per cent; or
 - (ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance (see paragraph 20F).

20E For the purposes of applying paragraph 20D(b), liabilities connected with insurance comprise:

- (a) liabilities arising from contracts within the scope of this Standard, AASB 1023 and AASB 1038, as described in paragraph 20D(a);
- (b) non-derivative investment contract liabilities measured at fair value through profit or loss applying AASB 139 (including those designated as at fair value through profit or loss to which the insurer has applied the requirements in AASB 9 for the presentation of gains and losses (see paragraphs 20B(a) and 20C)); and
- (c) liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital.

20F In assessing whether it engages in a significant activity unconnected with insurance for the purposes of applying paragraph 20D(b)(ii), an insurer shall consider:

- (a) only those activities from which it may earn income and incur expenses; and
- (b) quantitative or qualitative factors (or both), including publicly available information such as the industry classification that users of financial statements apply to the insurer.

20G Paragraph 20B(b) requires an entity to assess whether it qualifies for the temporary exemption from AASB 9 at its annual reporting date that immediately precedes 1 April 2016. After that date:

- (a) an entity that previously qualified for the temporary exemption from AASB 9 shall reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.
- (b) an entity that previously did not qualify for the temporary exemption from AASB 9 is permitted to reassess whether its activities are predominantly connected with insurance at a subsequent annual reporting date before 31 December 2018 if, and only if, there was a change in the entity's activities, as described in paragraphs 20H–20I, during the annual period that ended on that date.

20H For the purposes of applying paragraph 20G, a change in an entity's activities is a change that:

- (a) is determined by the entity's senior management as a result of external or internal changes;
- (b) is significant to the entity's operations; and
- (c) is demonstrable to external parties.

Accordingly, such a change occurs only when the entity begins or ceases to perform an activity that is significant to its operations or significantly changes the magnitude of one of its activities; for example, when the entity has acquired, disposed of or terminated a business line.

- 20I A change in an entity's activities, as described in paragraph 20H, is expected to be very infrequent. The following are not changes in an entity's activities for the purposes of applying paragraph 20G:
- (a) a change in the entity's funding structure that in itself does not affect the activities from which the entity earns income and incurs expenses.
 - (b) the entity's plan to sell a business line, even if the assets and liabilities are classified as held for sale applying AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. A plan to sell a business line could change the entity's activities and give rise to a reassessment in the future but has yet to affect the liabilities recognised on its statement of financial position.
- 20J If an entity no longer qualifies for the temporary exemption from AASB 9 as a result of a reassessment (see paragraph 20G(a)), then the entity is permitted to continue to apply the temporary exemption from AASB 9 only until the end of the annual period that began immediately after that reassessment. Nevertheless, the entity must apply AASB 9 for annual periods beginning on or after 1 January 2021. For example, if an entity determines that it no longer qualifies for the temporary exemption from AASB 9 applying paragraph 20G(a) on 31 December 2018 (the end of its annual period), then the entity is permitted to continue to apply the temporary exemption from AASB 9 only until 31 December 2019.
- 20K An insurer that previously elected to apply the temporary exemption from AASB 9 may at the beginning of any subsequent annual period irrevocably elect to apply AASB 9.

First-time adopter

- 20L A first-time adopter, as defined in AASB 1 *First-time Adoption of Australian Accounting Standards*, may apply the temporary exemption from AASB 9 described in paragraph 20A if, and only if, it meets the criteria described in paragraph 20B. In applying paragraph 20B(b), the first-time adopter shall use the carrying amounts determined applying Standards at the date specified in that paragraph.
- 20M AASB 1 contains requirements and exemptions applicable to a first-time adopter. Those requirements and exemptions (for example, paragraphs D16–D17 of AASB 1) do not override the requirements in paragraphs 20A–20Q and 39B–39J of this Standard. For example, the requirements and exemptions in AASB 1 do not override the requirement that a first-time adopter must meet the criteria specified in paragraph 20L to apply the temporary exemption from AASB 9.
- 20N A first-time adopter that discloses the information required by paragraphs 39B–39J shall use the requirements and exemptions in AASB 1 that are relevant to making the assessments required for those disclosures.

Temporary exemption from specific requirements in AASB 128

- 20O Paragraphs 35–36 of AASB 128 *Investments in Associates and Joint Ventures* require an entity to apply uniform accounting policies when using the equity method. Nevertheless, for annual periods beginning before 1 January 2021, an entity is permitted, but not required, to retain the relevant accounting policies applied by the associate or joint venture as follows:
- (a) the entity applies AASB 9 but the associate or joint venture applies the temporary exemption from AASB 9; or
 - (b) the entity applies the temporary exemption from AASB 9 but the associate or joint venture applies AASB 9.
- 20P When an entity uses the equity method to account for its investment in an associate or joint venture:
- (a) if AASB 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then AASB 9 shall continue to be applied.
 - (b) if the temporary exemption from AASB 9 was previously applied in the financial statements used to apply the equity method to that associate or joint venture (after reflecting any adjustments made by the entity), then AASB 9 may be subsequently applied.
- 20Q An entity may apply paragraphs 20O and 20P(b) separately for each associate or joint venture.

Changes in accounting policies

- 21 Paragraphs 22–30 apply both to changes made by an insurer that already applies IFRSs and to changes made by an insurer adopting Australian Accounting Standards for the first time.

22 **An insurer may change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An insurer shall judge relevance and reliability by the criteria in AASB 108.**

23 To justify changing its accounting policies for insurance contracts, an insurer shall show that the change brings its financial statements closer to meeting the criteria in AASB 108, but the change need not achieve full compliance with those criteria. The following specific issues are discussed below:

- (a) current interest rates (paragraph 24);
- (b) continuation of existing practices (paragraph 25);
- (c) prudence (paragraph 26);
- (d) future investment margins (paragraphs 27–29); and
- (e) shadow accounting (paragraph 30).

Current market interest rates

24 An insurer is permitted, but not required, to change its accounting policies so that it remeasures designated insurance liabilities³ to reflect current market interest rates and recognises changes in those liabilities in profit or loss. At that time, it may also introduce accounting policies that require other current estimates and assumptions for the designated liabilities. The election in this paragraph permits an insurer to change its accounting policies for designated liabilities, without applying those policies consistently to all similar liabilities as AASB 108 would otherwise require. If an insurer designates liabilities for this election, it shall continue to apply current market interest rates (and, if applicable, the other current estimates and assumptions) consistently in all periods to all these liabilities until they are extinguished.

Continuation of existing practices

25 An insurer may continue the following practices, but the introduction of any of them does not satisfy paragraph 22:

- (a) measuring insurance liabilities on an undiscounted basis.
- (b) measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services. It is likely that the fair value at inception of those contractual rights equals the origination costs paid, unless future investment management fees and related costs are out of line with market comparables.
- (c) using non-uniform accounting policies for the insurance contracts (and related deferred acquisition costs and related intangible assets, if any) of subsidiaries, except as permitted by paragraph 24. If those accounting policies are not uniform, an insurer may change them if the change does not make the accounting policies more diverse and also satisfies the other requirements in this Standard.

Prudence

26 An insurer need not change its accounting policies for insurance contracts to eliminate excessive prudence. However, if an insurer already measures its insurance contracts with sufficient prudence, it shall not introduce additional prudence.

Future investment margins

27 An insurer need not change its accounting policies for insurance contracts to eliminate future investment margins. However, there is a rebuttable presumption that an insurer's financial statements will become less relevant and reliable if it introduces an accounting policy that reflects future investment margins in the measurement of insurance contracts, unless those margins affect the contractual payments. Two examples of accounting policies that reflect those margins are:

- (a) using a discount rate that reflects the estimated return on the insurer's assets; or

3 In this paragraph, insurance liabilities include related deferred acquisition costs and related intangible assets, such as those discussed in paragraphs 31 and 32.

- (b) projecting the returns on those assets at an estimated rate of return, discounting those projected returns at a different rate and including the result in the measurement of the liability.
- 28 An insurer may overcome the rebuttable presumption described in paragraph 27 if, and only if, the other components of a change in accounting policies increase the relevance and reliability of its financial statements sufficiently to outweigh the decrease in relevance and reliability caused by the inclusion of future investment margins. For example, suppose that an insurer's existing accounting policies for insurance contracts involve excessively prudent assumptions set at inception and a discount rate prescribed by a regulator without direct reference to market conditions, and ignore some embedded options and guarantees. The insurer might make its financial statements more relevant and no less reliable by switching to a comprehensive investor-oriented basis of accounting that is widely used and involves:
- (a) current estimates and assumptions;
 - (b) a reasonable (but not excessively prudent) adjustment to reflect risk and uncertainty;
 - (c) measurements that reflect both the intrinsic value and time value of embedded options and guarantees; and
 - (d) a current market discount rate, even if that discount rate reflects the estimated return on the insurer's assets.
- 29 In some measurement approaches, the discount rate is used to determine the present value of a future profit margin. That profit margin is then attributed to different periods using a formula. In those approaches, the discount rate affects the measurement of the liability only indirectly. In particular, the use of a less appropriate discount rate has a limited or no effect on the measurement of the liability at inception. However, in other approaches, the discount rate determines the measurement of the liability directly. In the latter case, because the introduction of an asset-based discount rate has a more significant effect, it is highly unlikely that an insurer could overcome the rebuttable presumption described in paragraph 27.

Shadow accounting

- 30 In some accounting models, realised gains or losses on an insurer's assets have a direct effect on the measurement of some or all of (a) its insurance liabilities, (b) related deferred acquisition costs and (c) related intangible assets, such as those described in paragraphs 31 and 32. An insurer is permitted, but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects those measurements in the same way that a realised gain or loss does. The related adjustment to the insurance liability (or deferred acquisition costs or intangible assets) shall be recognised in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other comprehensive income. This practice is sometimes described as 'shadow accounting'.

Insurance contracts acquired in a business combination or portfolio transfer

- 31 To comply with AASB 3, 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 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 (a). The subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.
- 32 An insurer acquiring a portfolio of insurance contracts may use the expanded presentation described in paragraph 31.
- 33 The intangible assets described in paragraphs 31 and 32 are excluded from the scope of AASB 136 *Impairment of Assets* and AASB 138. However, 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.

Discretionary participation features

Discretionary participation features in insurance contracts

- 34 Some insurance contracts contain a discretionary participation feature as well as a *guaranteed element*. 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 shall classify the whole contract as a liability. If the issuer classifies them separately, it shall classify 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 or all of the 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 non-controlling 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.
 - (e) shall, in all respects not described in paragraphs 14–20 and 34(a)–(d), continue its existing accounting policies for such contracts, unless it changes those accounting policies in a way that complies with paragraphs 21–30.

Discretionary participation features in financial instruments

- 35 The requirements in paragraph 34 also apply to a financial instrument 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 paragraphs 15–19 to the whole contract (ie 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 that 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 9 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.
 - (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.
- 35A The temporary exemptions in paragraphs 20A, 20L and 20O and the overlay approach in paragraph 35B are also available to an issuer of a financial instrument that contains a discretionary participation feature. Accordingly, all references in paragraphs 3(a)–3(b), 20A–20Q, 35B–35N, 39B–39M and 46–49 to an insurer shall be read as also referring to an issuer of a financial instrument that contains a discretionary participation feature.

Presentation

The overlay approach

- 35B** An insurer is permitted, but not required, to apply the overlay approach to designated financial assets. An insurer that applies the overlay approach shall:
- (a) reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if the insurer had applied AASB 139 to the designated financial assets. Accordingly, the amount reclassified is equal to the difference between:
 - (i) the amount reported in profit or loss for the designated financial assets applying AASB 9; and
 - (ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied AASB 139.
 - (b) apply all other applicable Standards to its financial instruments, except as described in paragraphs 35B–35N, 39K–39M and 48–49 of this Standard.
- 35C** An insurer may elect to apply the overlay approach described in paragraph 35B only when it first applies AASB 9, including when it first applies AASB 9 after previously applying:
- (a) the temporary exemption from AASB 9 described in paragraph 20A; or
 - (b) only the requirements for the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss in paragraphs 5.7.1(c), 5.7.7–5.7.9, 7.2.14 and B5.7.5–B5.7.20 of AASB 9.
- 35D** An insurer shall present the amount reclassified between profit or loss and other comprehensive income applying the overlay approach:
- (a) in profit or loss as a separate line item; and
 - (b) in other comprehensive income as a separate component of other comprehensive income.
- 35E** A financial asset is eligible for designation for the overlay approach if, and only if, the following criteria are met:
- (a) it is measured at fair value through profit or loss applying AASB 9 but would not have been measured at fair value through profit or loss in its entirety applying AASB 139; and
 - (b) it is not held in respect of an activity that is unconnected with contracts within the scope of this Standard, AASB 1023 or AASB 1038. Examples of financial assets that would not be eligible for the overlay approach are those assets held in respect of banking activities or financial assets held in funds relating to investment contracts that are outside the scope of this Standard, AASB 1023 or AASB 1038.
- 35F** An insurer may designate an eligible financial asset for the overlay approach when it elects to apply the overlay approach (see paragraph 35C). Subsequently, it may designate an eligible financial asset for the overlay approach when, and only when:
- (a) that asset is initially recognised; or
 - (b) that asset newly meets the criterion in paragraph 35E(b) having previously not met that criterion.
- 35G** An insurer is permitted to designate eligible financial assets for the overlay approach applying paragraph 35F on an instrument-by-instrument basis.
- 35H** When relevant, for the purposes of applying the overlay approach to a newly designated financial asset applying paragraph 35F(b):
- (a) its fair value at the date of designation shall be its new amortised cost carrying amount; and
 - (b) the effective interest rate shall be determined based on its fair value at the date of designation.
- 35I** An entity shall continue to apply the overlay approach to a designated financial asset until that financial asset is derecognised. However, an entity:
- (a) shall de-designate a financial asset when the financial asset no longer meets the criterion in paragraph 35E(b). For example, a financial asset will no longer meet that criterion when an entity transfers that asset so that it is held in respect of its banking activities or when an entity ceases to be an insurer.

- (b) may, at the beginning of any annual period, stop applying the overlay approach to all designated financial assets. An entity that elects to stop applying the overlay approach shall apply AASB 108 to account for the change in accounting policy.
- 35J When an entity de-designates a financial asset applying paragraph 35I(a), it shall reclassify from accumulated other comprehensive income to profit or loss as a reclassification adjustment (see AASB 101) any balance relating to that financial asset.
- 35K If an entity stops using the overlay approach applying the election in paragraph 35I(b) or because it is no longer an insurer, it shall not subsequently apply the overlay approach. An insurer that has elected to apply the overlay approach (see paragraph 35C) but has no eligible financial assets (see paragraph 35E) may subsequently apply the overlay approach when it has eligible financial assets.

Interaction with other requirements

- 35L Paragraph 30 of this Standard permits a practice that is sometimes described as ‘shadow accounting’. If an insurer applies the overlay approach, shadow accounting may be applicable.
- 35M Reclassifying an amount between profit or loss and other comprehensive income applying paragraph 35B may have consequential effects for including other amounts in other comprehensive income, such as income taxes. An insurer shall apply the relevant Standard, such as AASB 112 *Income Taxes*, to determine any such consequential effects.

First-time adopter

- 35N If a first-time adopter elects to apply the overlay approach, it shall restate comparative information to reflect the overlay approach if, and only if, it restates comparative information to comply with AASB 9 (see paragraphs E1–E2 of AASB 1).

Disclosure

Explanation of recognised amounts

- 36 **An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.**
- 37 To comply with paragraph 36, an insurer shall disclose:
- (a) its accounting policies for insurance contracts and related assets, liabilities, income and expense.
 - (b) the recognised assets, liabilities, income and expense (and, if it presents its statement of cash flows using the direct method, cash flows) arising from insurance contracts. Furthermore, if the insurer is a cedant, it shall disclose:
 - (i) gains and losses recognised in profit or loss on buying reinsurance; and
 - (ii) if the cedant defers and amortises gains and losses arising on 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, an insurer shall also give quantified disclosure of those assumptions.
 - (d) the effect of changes in assumptions used to measure insurance assets and insurance liabilities, showing separately the effect of each change that has a material effect on the financial statements.
 - (e) reconciliations of changes in insurance liabilities, reinsurance assets and, if any, related deferred acquisition costs.

Nature and extent of risks arising from insurance contracts

- 38 **An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.**

- 39 To comply with paragraph 38, an insurer shall disclose:
- (a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks.
 - (b) [deleted]
 - (c) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:
 - (i) sensitivity to insurance risk (see paragraph 39A).
 - (ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of insured event, geographical area, or currency).
 - (iii) actual claims compared with previous estimates (ie 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. An 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.
 - (d) information about credit risk, liquidity risk and market risk that paragraphs 31–42 of AASB 7 would require if the insurance contracts were within the scope of AASB 7. However:
 - (i) an insurer need not provide the maturity analyses required by paragraph 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.
 - (ii) if an 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 an insurer shall also provide the disclosures required by paragraph 41 of AASB 7.
 - (e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

39A To comply with paragraph 39(c)(i), an 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 if changes in the relevant risk variable that were reasonably possible at the end of the reporting period had 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 an 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.
- (b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Disclosures about the temporary exemption from AASB 9

39B An insurer that elects to apply the temporary exemption from AASB 9 shall disclose information to enable users of financial statements:

- (a) to understand how the insurer qualified for the temporary exemption; and**
- (b) to compare insurers applying the temporary exemption with entities applying AASB 9.**

39C To comply with paragraph 39B(a), an insurer shall disclose the fact that it is applying the temporary exemption from AASB 9 and how the insurer concluded on the date specified in paragraph 20B(b) that it qualifies for the temporary exemption from AASB 9, including:

- (a) if the carrying amount of its liabilities arising from contracts within the scope of this Standard (ie those liabilities described in paragraph 20E(a)) was less than or equal to 90 per cent of the total carrying amount of all its liabilities, the nature and carrying amounts of the liabilities connected

- with insurance that are not liabilities arising from contracts within the scope of this Standard (ie those liabilities described in paragraphs 20E(b) and 20E(c));
- (b) if the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities was less than or equal to 90 per cent but greater than 80 per cent, how the insurer determined that it did not engage in a significant activity unconnected with insurance, including what information it considered; and
 - (c) if the insurer qualified for the temporary exemption from AASB 9 on the basis of a reassessment applying paragraph 20G(b):
 - (i) the reason for the reassessment;
 - (ii) the date on which the relevant change in its activities occurred; and
 - (iii) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the insurer's financial statements.
- 39D If, applying paragraph 20G(a), an entity concludes that its activities are no longer predominantly connected with insurance, it shall disclose the following information in each reporting period before it begins to apply AASB 9:
- (a) the fact that it no longer qualifies for the temporary exemption from AASB 9;
 - (b) the date on which the relevant change in its activities occurred; and
 - (c) a detailed explanation of the change in its activities and a qualitative description of the effect of that change on the entity's financial statements.
- 39E To comply with paragraph 39B(b), an insurer shall disclose the fair value at the end of the reporting period and the amount of change in the fair value during that period for the following two groups of financial assets separately:
- (a) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (ie financial assets that meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of AASB 9), excluding any financial asset that meets the definition of held for trading in AASB 9, or that is managed and whose performance is evaluated on a fair value basis (see paragraph B4.1.6 of AASB 9).
 - (b) all financial assets other than those specified in paragraph 39E(a); that is, any financial asset:
 - (i) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;
 - (ii) that meets the definition of held for trading in AASB 9; or
 - (iii) that is managed and whose performance is evaluated on a fair value basis.
- 39F When disclosing the information in paragraph 39E, the insurer:
- (a) may deem the carrying amount of the financial asset measured applying AASB 139 to be a reasonable approximation of its fair value if the insurer is not required to disclose its fair value applying paragraph 29(a) of AASB 7 (eg short-term trade receivables); and
 - (b) shall consider the level of detail necessary to enable users of financial statements to understand the characteristics of the financial assets.
- 39G To comply with paragraph 39B(b), an insurer shall disclose information about the credit risk exposure, including significant credit risk concentrations, inherent in the financial assets described in paragraph 39E(a). At a minimum, an insurer shall disclose the following information for those financial assets at the end of the reporting period:
- (a) by credit risk rating grades as defined in AASB 7, the carrying amounts applying AASB 139 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).
 - (b) for the financial assets described in paragraph 39E(a) that do not have low credit risk at the end of the reporting period, the fair value and the carrying amount applying AASB 139 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances). For the purposes of this disclosure, paragraph B5.5.22 of AASB 9 provides the relevant requirements for assessing whether the credit risk on a financial instrument is considered low.
- 39H To comply with paragraph 39B(b), an insurer shall disclose information about where a user of financial statements can obtain any publicly available AASB 9 information that relates to an entity within the group that is not provided in the group's consolidated financial statements for the relevant reporting period. For

example, such AASB 9 information could be obtained from the publicly available individual or separate financial statements of an entity within the group that has applied AASB 9.

39I If an entity elected to apply the exemption in paragraph 20O from particular requirements in AASB 128, it shall disclose that fact.

39J If an entity applied the temporary exemption from AASB 9 when accounting for its investment in an associate or joint venture using the equity method (for example, see paragraph 20O(a)), the entity shall disclose the following, in addition to the information required by AASB 12 *Disclosure of Interests in Other Entities*:

- (a) the information described by paragraphs 39B–39H for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the Australian-Accounting-Standards financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of AASB 12), rather than the entity’s share of those amounts.
- (b) the quantitative information described by paragraphs 39B–39H in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:
 - (i) disclosed shall be the entity’s share of those amounts; and
 - (ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

Disclosures about the overlay approach

39K **An insurer that applies the overlay approach shall disclose information to enable users of financial statements to understand:**

- (a) **how the total amount reclassified between profit or loss and other comprehensive income in the reporting period is calculated; and**
- (b) **the effect of that reclassification on the financial statements.**

39L To comply with paragraph 39K, an insurer shall disclose:

- (a) the fact that it is applying the overlay approach;
- (b) the carrying amount at the end of the reporting period of financial assets to which the insurer applies the overlay approach by class of financial asset;
- (c) the basis for designating financial assets for the overlay approach, including an explanation of any designated financial assets that are held outside the legal entity that issues contracts within the scope of this Standard;
- (d) an explanation of the total amount reclassified between profit or loss and other comprehensive income in the reporting period in a way that enables users of financial statements to understand how that amount is derived, including:
 - (i) the amount reported in profit or loss for the designated financial assets applying AASB 9; and
 - (ii) the amount that would have been reported in profit or loss for the designated financial assets if the insurer had applied AASB 139.
- (e) the effect of the reclassification described in paragraphs 35B and 35M on each affected line item in profit or loss; and
- (f) if during the reporting period the insurer has changed the designation of financial assets:
 - (i) the amount reclassified between profit or loss and other comprehensive income in the reporting period relating to newly designated financial assets applying the overlay approach (see paragraph 35F(b));
 - (ii) the amount that would have been reclassified between profit or loss and other comprehensive income in the reporting period if the financial assets had not been de-designated (see paragraph 35I(a)); and
 - (iii) the amount reclassified in the reporting period to profit or loss from accumulated other comprehensive income for financial assets that have been de-designated (see paragraph 35J).

- 39M If an entity applied the overlay approach when accounting for its investment in an associate or joint venture using the equity method, the entity shall disclose the following, in addition to the information required by AASB 12:
- (a) the information described by paragraphs 39K–39L for each associate or joint venture that is material to the entity. The amounts disclosed shall be those included in the Australian-Accounting-Standards financial statements of the associate or joint venture after reflecting any adjustments made by the entity when using the equity method (see paragraph B14(a) of AASB 12), rather than the entity’s share of those amounts.
 - (b) the quantitative information described by paragraphs 39K–39L(d) and 39L(f), and the effect of the reclassification described in paragraph 35B on profit or loss and other comprehensive income in aggregate for all individually immaterial associates or joint ventures. The aggregate amounts:
 - (i) disclosed shall be the entity’s share of those amounts; and
 - (ii) for associates shall be disclosed separately from the aggregate amounts disclosed for joint ventures.

Effective date and transition

- 40 The transitional provisions in paragraphs 41–45 apply both to an entity that is already applying IFRSs when it first applies this Standard and to an entity that applies Australian Accounting Standards for the first time (a first-time adopter).
- 41 An entity shall apply this Standard for annual periods beginning on or after 1 January 2018. Earlier application is encouraged for periods beginning after 24 July 2014 but before 1 January 2018. If an entity applies this Standard for an earlier period, it shall disclose that fact.
- 41A–
41B [Deleted by the AASB]
- 41C [Deleted]
- 41D [Deleted]
- 41E [Deleted by the AASB]
- 41F [Deleted]
- 41G AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*, issued in December 2014, amended the previous version of this Standard as follows: amended paragraphs 4(a) and (c), B7, B18(h) and B21. An entity shall apply those amendments when it applies AASB 15.
- 41H AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (as amended), AASB 2014-1 *Amendments to Australian Accounting Standards* and AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)* amended the previous version of this Standard as follows: amended paragraphs 3, 4, 7, 8, 12, 34, 35, 45, Appendix A and paragraphs B18–B20 and deleted paragraph 41C. Paragraph 41D, added by AASB 2010-7, was deleted by AASB 2014-1. Paragraph 41F, added by AASB 2014-1, was deleted by AASB 2014-7. An entity shall apply those amendments when it applies AASB 9.

Disclosure

- 42 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 paragraph 37(a) and (b) about accounting policies, and recognised assets, liabilities, income and expense (and cash flows if the direct method is used).
- 43 If it is impracticable to apply a particular requirement of paragraphs 10–35 to comparative information that relates to annual periods beginning before 1 January 2005, an entity shall disclose that fact. Applying the liability adequacy test (paragraphs 15–19) to such comparative information might sometimes be impracticable, but it is highly unlikely to be impracticable to apply other requirements of paragraphs 10–35 to such comparative information. AASB 108 explains the term ‘impracticable’.
- 44 In applying paragraph 39(c)(iii), an entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year 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.

Redesignation of financial assets

- 45 Notwithstanding paragraph 4.4.1 of AASB 9, when an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets so that they are measured at fair value through profit or loss. This reclassification is permitted if an insurer changes accounting policies when it first applies this Standard and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and AASB 108 applies.

Applying AASB 4 with AASB 9

Temporary exemption from AASB 9

- 46 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*, issued in October 2016, amended paragraphs 3 and 5, and added paragraphs 20A–20Q, 35A and 39B–39J and headings after paragraphs 20, 20K, 20N and 39A. An entity shall apply those amendments, which permit insurers that meet specified criteria to apply a temporary exemption from AASB 9, for annual periods beginning on or after 1 January 2018.
- 47 An entity that discloses the information required by paragraphs 39B–39J shall use the transitional provisions in AASB 9 that are relevant to making the assessments required for those disclosures. The date of initial application for that purpose shall be deemed to be the beginning of the first annual period beginning on or after 1 January 2018.

The overlay approach

- 48 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*, issued in October 2016, amended paragraphs 3 and 5, and added paragraphs 35A–35N and 39K–39M and headings after paragraphs 35A, 35K, 35M and 39J. An entity shall apply those amendments, which permit insurers to apply the overlay approach to designated financial assets, when it first applies AASB 9 (see paragraph 35C).
- 49 An entity that elects to apply the overlay approach shall:
- apply that approach retrospectively to designated financial assets on transition to AASB 9. Accordingly, for example, the entity shall recognise as an adjustment to the opening balance of accumulated other comprehensive income an amount equal to the difference between the fair value of the designated financial assets determined applying AASB 9 and their carrying amount determined applying AASB 139.
 - restate comparative information to reflect the overlay approach if, and only if, the entity restates comparative information applying AASB 9.

Commencement of the legislative instrument

- Aus45.1 For legal purposes, this legislative instrument commences on 31 December 2017.

Withdrawal of AASB pronouncements

- Aus45.2 This Standard repeals AASB 4 *Insurance Contracts* issued in July 2004. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.

[Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

Appendix A Defined terms

This appendix is an integral part of the Standard.

cedant	The policyholder under a reinsurance contract .
deposit component	A contractual component that is not accounted for as a derivative under AASB 9 and would be within the scope of AASB 9 if it were a separate instrument.
direct insurance contract	An insurance contract that is not a reinsurance contract .
discretionary participation feature	A contractual right to receive, as a supplement to guaranteed benefits , additional benefits: <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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	<i>Fair value</i> 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 guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial risk	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, 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.
guaranteed benefits	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	An obligation to pay guaranteed benefits , included in a contract that contains a discretionary participation feature .
insurance asset	An insurer's net contractual rights under an insurance contract .
insurance contract	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. (See Appendix B for guidance on this definition.)
insurance liability	An insurer's net contractual obligations under an insurance contract .
insurance risk	Risk, other than financial risk , transferred from the holder of a contract to the issuer.
insured event	An uncertain future event that is covered by an insurance contract and creates insurance risk .
insurer	The party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs.
liability adequacy test	An assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased), based on a review of future cash flows.

policyholder	A party that has a right to compensation under an insurance contract if an insured event occurs.
reinsurance assets	A cedant's net contractual rights under a reinsurance contract .
reinsurance contract	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	The party that has an obligation under a reinsurance contract to compensate a cedant if an insured event occurs.
unbundle	Account for the components of a contract as if they were separate contracts.

Additional Australian defined terms – see Appendix C.

Appendix B

Definition of an insurance contract

This appendix is an integral part of the Standard.

- B1 This appendix gives guidance on the definition of an insurance contract in Appendix A. It addresses the following issues:
- (a) the term ‘uncertain future event’ (paragraphs B2–B4);
 - (b) payments in kind (paragraphs B5–B7);
 - (c) insurance risk and other risks (paragraphs B8–B17);
 - (d) examples of insurance contracts (paragraphs B18–B21);
 - (e) significant insurance risk (paragraphs B22–B28); and
 - (f) changes in the level of insurance risk (paragraphs B29 and B30).

Uncertain future event

- B2 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.
- B3 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.
- B4 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.

Payments in kind

- B5 Some insurance contracts require or permit payments to be made in kind. An example is when the insurer replaces a stolen article directly, instead of reimbursing the policyholder. Another example is when an insurer uses its own hospitals and medical staff to provide medical services covered by the contracts.
- B6 Some fixed-fee service contracts in which the level of service depends on an uncertain event meet the definition of an insurance contract in this Standard but are not regulated as insurance contracts in some countries. One example is a maintenance contract in which the service provider agrees to repair specified equipment after a malfunction. The fixed service fee is based on the expected number of malfunctions, but it is uncertain whether a particular machine will break down. The malfunction of the equipment adversely affects its owner and the contract compensates the owner (in kind, rather than cash). Another example is a contract for car breakdown services in which the provider agrees, for a fixed annual fee, to provide roadside assistance or tow the car to a nearby garage. The latter contract could meet the definition of an insurance contract even if the provider does not agree to carry out repairs or replace parts.
- B7 Applying the Standard to the contracts described in paragraph B6 is likely to be no more burdensome than applying the Australian Accounting Standards that would be applicable if such contracts were outside the scope of this Standard:
- (a) There are unlikely to be material liabilities for malfunctions and breakdowns that have already occurred.
 - (b) If AASB 15 applied, the service provider would recognise revenue when (or as) it transfers services to the customer (subject to other specified criteria). That approach is also acceptable under this Standard, which permits the service provider (i) to continue its existing accounting policies for these contracts unless they involve practices prohibited by paragraph 14 and (ii) to improve its accounting policies if so permitted by paragraphs 22–30.

- (c) The service provider considers whether the cost of meeting its contractual obligation to provide services exceeds the revenue received in advance. To do this, it applies the liability adequacy test described in paragraphs 15–19 of this Standard. If this Standard did not apply to these contracts, the service provider would apply AASB 137 to determine whether the contracts are onerous.
- (d) For these contracts, the disclosure requirements in this Standard are unlikely to add significantly to disclosures required by other Australian Accounting Standards.

Distinction between insurance risk and other risks

- B8 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.
- B9 The definition of financial risk in Appendix A 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, such as the occurrence or non-occurrence of a fire that damages or destroys an asset of that party. Furthermore, the risk of changes in the fair value of a non-financial asset is not a financial risk if the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of a specific non-financial asset held by a party to a contract (a non-financial variable). For example, if a guarantee of the residual value of a specific car exposes the guarantor to the risk of changes in the car's physical condition, that risk is insurance risk, not financial risk.
- B10 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.
- B11 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 7 of this Standard).
- B12 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.
- B13 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 exclude 'new-for-old' coverage that pays the policyholder sufficient to permit replacement of a damaged old asset by a new asset. Similarly, 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.
- B14 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.
- B15 Lapse or persistency risk (ie 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 (ie 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.

- B16 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.
- B17 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 insurance contracts

- B18 The following are examples of contracts that are insurance contracts, if the transfer of insurance risk is significant:
- (a) insurance against theft or damage to property.
 - (b) insurance against product liability, professional liability, civil liability or legal expenses.
 - (c) life insurance and prepaid funeral plans (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).
 - (d) life-contingent annuities and pensions (ie 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).
 - (e) disability and medical cover.
 - (f) surety bonds, fidelity bonds, performance bonds and bid bonds (ie contracts that provide compensation if another party fails to perform a contractual obligation, for example an obligation to construct a building).
 - (g) credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a financial guarantee contract in AASB 9 and are within the scope of AASB 132⁴ and AASB 9, not this Standard (see paragraph 4(d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either AASB 132⁵ and AASB 9 or AASB 1023 to such financial guarantee contracts.
 - (h) product warranties. Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer are within the scope of this Standard. However, product warranties issued directly by a manufacturer, dealer or retailer are outside its scope, because they are within the scope of AASB 15 and AASB 137.
 - (i) title insurance (ie insurance against the discovery of defects in title to land that were not apparent when the insurance contract was written). In this case, the insured event is the discovery of a defect in the title, not the defect itself.
 - (j) travel assistance (ie compensation in cash or in kind to policyholders for losses suffered while they are travelling). Paragraphs B6 and B7 discuss some contracts of this kind.
 - (k) catastrophe bonds that provide for reduced payments of principal, interest or both if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk, for example if the event is a change in an interest rate or foreign exchange rate).
 - (l) insurance swaps and other contracts that require a payment based on changes in climatic, geological or other physical variables that are specific to a party to the contract.
 - (m) reinsurance contracts.

4 When an entity applies AASB 7, the reference to AASB 132 is replaced by a reference to AASB 7.

5 When an entity applies AASB 7, the reference to AASB 132 is replaced by a reference to AASB 7.

- B19 The following are examples of items that are not insurance contracts:
- (a) investment contracts that have the legal form of an insurance contract 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 B20 and B21).
 - (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 B20 and B21).
 - (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 (see also paragraph B13).
 - (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).
 - (f) a credit-related guarantee (or letter of credit, credit derivative default contract or credit insurance contract) that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due (see AASB 9).
 - (g) contracts that require a payment based on a climatic, geological or other physical variable that is not specific to a party to the contract (commonly described as weather derivatives).
 - (h) catastrophe bonds that provide for reduced payments of principal, interest or both, based on a climatic, geological or other physical variable that is not specific to a party to the contract.
- B20 If the contracts described in paragraph B19 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.
 - (b) the other party recognises the consideration paid as a financial asset, rather than as an expense.
- B21 If the contracts described in paragraph B19 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

- B22 A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs B8–B21 discuss insurance risk. The following paragraphs discuss the assessment of whether insurance risk is significant.
- B23 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 (ie 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 (ie probability-weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.
- B24 The additional benefits described in paragraph B23 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.
 - (d) possible reinsurance recoveries. The insurer accounts for these separately.
- B25 An insurer shall assess the significance of insurance risk contract by contract, rather than by reference to materiality to the financial statements.⁶ Thus, insurance risk may be significant even if there is a minimal 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.
- B26 It follows from paragraphs B23–B25 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 B24(b), 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.
- B27 Paragraph B23 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.
- B28 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

- B29 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.
- B30 A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

⁶ For this purpose, contracts entered into simultaneously with a single counterparty (or contracts that are otherwise interdependent) form a single contract.

Appendix C Australian defined terms

This appendix is an integral part of the Standard.

- general insurance contract** An **insurance contract** that is not a **life insurance contract**.
- life insurance contract** An **insurance contract**, or a financial instrument with a **discretionary participation feature**, regulated under the *Life Insurance Act 1995*, and similar contracts issued by entities operating outside Australia.

Compilation details

Accounting Standard AASB 4 *Insurance Contracts* as amended

Compilation details are not part of AASB 4.

This compiled Standard applies to annual periods beginning on or after 1 January 2018 but before 1 January 2019 for for-profit entities. It takes into account amendments up to and including 19 July 2017 and was prepared on 20 March 2018 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 4 (August 2015) 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 (<i>annual periods</i> ... <i>on or after ...</i>)	Application, saving or transitional provisions
AASB 4	7 Aug 2015	F2015L01623	31 Dec 2017	(<i>beginning</i>) 1 Jan 2018	see (a) below
AASB 16	23 Feb 2016	F2016L00233	31 Dec 2018	(<i>beginning</i>) 1 Jan 2019	not compiled*
AASB 2016-6	5 Oct 2016	F2016L01637	22 Oct 2016	(<i>beginning</i>) 1 Jan 2018	see (b) below
AASB 2016-7	9 Dec 2016	F2017L00043	31 Dec 2016	(<i>beginning</i>) 1 Jan 2017	see (c) below
AASB 2017-3	19 Jul 2017	F2017L01181	31 Dec 2017	(<i>beginning</i>) 1 Jan 2018	see (d) 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 2018 but before 1 January 2019 for for-profit entities.

- (a) Entities may elect to apply this Standard to annual periods beginning after 24 July 2014 but before 1 January 2018.
- (b) Earlier application of this Standard is not permitted.
- (c) As a result of AASB 2016-7 deferring the effective date of AASB 15 *Revenue from Contracts with Customers* (and its consequential amendments in AASB 2014-5) for not-for-profit entities from 1 January 2018 to 1 January 2019, AASB 4 (2015) applies to not-for-profit entities only to annual reporting periods beginning on or after 1 January 2019, instead of 1 January 2018. However, earlier application is permitted, provided that AASB 15 is also applied.
- (d) Earlier application of this Standard is not permitted.

Table of amendments

Paragraph affected	How affected	By ... [paragraph/page]
3	amended	AASB 2016-6 [page 5]
Aus 3.1	amended	AASB 2017-3 [page 5]
Aus 3.2	added	AASB 2017-3 [page 5]
5	amended	AASB 2016-6 [page 6]
20A-20Q (and headings)	added	AASB 2016-6 [page 6]
20D-20E	amended	AASB 2017-3 [page 6]
35A-35N (and headings)	added	AASB 2016-6 [page 8]
35E	amended	AASB 2017-3 [page 6]
39B-39M (and headings)	added	AASB 2016-6 [page 10]
46-49 (and headings)	added	AASB 2016-6 [page 13]

Deleted IFRS 4 text

Deleted IFRS 4 text is not part of AASB 4.

- 41A *Financial Guarantee Contracts* (Amendments to IAS 39 and IFRS 4), issued in August 2005, amended paragraphs 4(d), B18(g) and B19(f). An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies those amendments for an earlier period, it shall disclose that fact and apply the related amendments to IAS 39 and IAS 32⁴ at the same time.
- 4 When an entity applies IFRS 7, the reference to IAS 32 is replaced by a reference to IFRS 7.
- 41B IAS 1 (revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraph 30. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.
- 41E IFRS 13 *Fair Value Measurement*, issued in May 2011, amended the definition of fair value in Appendix A. An entity shall apply that amendment when it applies IFRS 13.