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PAGES:	3 including the cover page		
SUBJECT:	Provision of comments on Exposure Draft ED 201 – Insurance Contracts		

Message

Please find attached ATO comments on ED 201 Insurance Contracts.

We would welcome the opportunity to meet with you to further discuss the financial accounting for insurance companies.

Yours sincerely,

Leslie Macdonald
Executive Director
Large Business & International
Australian Taxation Office

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Australian Government
Australian Taxation Office

Australian Accounting Standards Board
PO Box 204
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By fax: (03) 9617 7608

8 November 2010

Dear Sir / Madam

Exposure Draft ED 201 -- Insurance Contracts

Thank you for the opportunity to provide comments on Exposure Draft 201 Insurance Contracts (ED) dated August 2010. We have set out below our observations and suggestions.

The Australian Taxation Office (ATO) is interested in the accounting methodologies set out in the ED. In the case of general insurers, it is important for us to understand the amounts reported in a general insurance company's financial reports and the amounts worked out for income tax purposes under Division 321 of the *Income Tax Assessment Act 1997* (ITAA 1997).

We note for completeness that for life insurance companies, the rules in Division 320 of the ITAA 1997 are specifically aligned with actuarial standards.

Comments - Examples and explanatory material

We suggest that additional examples and explanatory material be included in the ED, in particular:

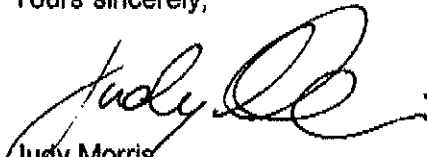
- It would be useful if the explanatory material in the Appendices in relation to the measurement of insurance contracts, and in particular the risk adjustment, provided a more comprehensive description of the alternative bases.
- Examples could be included showing the alternate outcomes that could arise under the different approaches for determining the risk adjustment component of the present value of the fulfilment cash flows (that is, the confidence level, conditional tail expectations and cost of capital techniques that are explained at paragraphs B75-90).
- To assist in understanding the implications of the alternative approaches offered by the proposed standard when determining the present value of the fulfilment cash flows (and hence their insurance contract liability) we suggest the addition of comprehensive examples that demonstrate the different outcomes that are possible under the different techniques in relation to the same insurance liabilities. While these calculations appear to be more in the

nature of actuarial rather than accounting concerns, the technique adopted has a direct influence on the outcome arising under the accounting standard and hence it would be useful if this was clearly demonstrated in the standard.

- We also feel that it would be useful if examples in the ED included the Statement of Financial Position and Statement of Comprehensive Income presentations. For instance, it would be useful if Example 1 on pages 59 and 60 also showed how the transactions were presented in these statements.
- It would also be useful to have a comparative table or similar of the impact of the new standard against AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* in the transitional period.

If you have any questions or wish to discuss our submission please contact Leslie Macdonald by email at lesliemacdonald@ato.gov.au or telephone (02) 6216 1709

Yours sincerely,



Judy Morris
Assistant Commissioner
Large Business and International
Australian Taxation Office