



30 September 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Via email: standard@asb.gov.au

Office of the Chief Executive
Alex Malley, FCPA

CPA Australia Ltd
ABN 64 008 392 452

Level 20, 28 Freshwater Place
Southbank VIC 3006 Australia
GPO Box 2820
Melbourne VIC 3001 Australia

T +61 3 9606 9689

W www.cpaaustralia.com.au

E alex.malley@cpaaustralia.com.au

Dear Kevin

ED 244 Insurance contracts

Thank you for the opportunity to comment on ED 244 (the ED). CPA Australia has considered the ED and our comments are set out below.

CPA Australia has more than 144,000 members working in 127 countries around the world. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We are supportive of the move towards international consistency in the accounting for insurance contracts. We continue to support the IASB's proposal to:

- use a current value approach, and
- measure outstanding claims on a basis that reflects the time value of money.

We also acknowledge the significant improvements in the proposals set out in the ED relative to the 2010 ED, particularly with respect to:

- the unlocking of margins for changes in estimates relating to future coverage
- the contract boundaries
- the treatment of diversification benefits
- the characterisation of the Premium Allocation Approach as an approximation for the Building Block Approach rather than an alternative model, and
- the approach to transition.

Our major concern with the ED is the mandatory use of other comprehensive income (OCI) to recognise some, but not all, of the impacts of interest rates on insurance contracts and their supporting assets. As we have identified in previous submissions, including the IASB agenda consultation submission, we do not consider that the current ad-hoc approach to presenting items in OCI, which should really be reflected in the profit and loss account, is acceptable. We understand that the IASB is currently looking at OCI as part of its conceptual framework project. Therefore, we would prefer this work to be completed, before allocating further amounts to OCI. We do not consider that the ad-hoc use of OCI will provide useful information to stakeholders, as it does not address accounting mismatches and will add significant complexity to the IASB's current proposals.

We recommend that the IASB amend the model to allow all changes to the carrying amounts of insurance contracts, and the fair value of assets supporting them, to be reflected in the profit or loss. This method would be consistent with the current measurement approach. We understand there is strong support from some countries to use OCI, and for this reason we can accept that the IASB may want to continue to allow the OCI method as an allowable alternative if certain conditions are met. We note that historically, the IASB has not supported the notion of options within accounting standards. However, in this case, we consider appropriate the restricted use of OCI to address areas of accounting mismatch.

If you have any questions regarding this submission, please do not hesitate to contact Mark Shying at mark.shying@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a large, stylized flourish above the name.

Alex Malley FCPA
Chief Executive