

Australian Prudential Regulation Authority

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APRA

Steve Somogyi  
MEMBER

Ref No AASB-DQR-1

25 November 2005

Mr David Boymal  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
COLLINS STREET WEST VIC 8007

Dear David,

**Re: Invitation to Comment: "Policyholder Equity" of Friendly Societies and AASB 1038 *Life Insurance Contracts***

As the prudential regulator of Australian friendly societies, APRA is keen to facilitate the transition to IFRS by the friendly society industry in a way which maintains the prudential integrity of friendly society financial management and reporting.

As part of this process APRA released a paper "Friendly societies: Additional changes accompanying IFRS - Request for Comment" in September 2005. That paper requested comment on options to facilitate the application of AASB 1038 and Margin on Service (MoS) reporting on friendly society benefit funds where the rules permit discretionary additions to policyholder benefits.

The paper canvassed two main options for addressing the issues raised in the paper. The option that was almost universally favoured in the responses received involved the extension of the concept of "policyholder equity" under AASB 1038 to include friendly societies as well as foreign life insurance operations.

The changes to AASB 1038 now advocated in the AASB's Invitation to Comment are in substance the same as those identified in the APRA paper.

Accordingly, APRA wishes to indicate its full support for the proposed amendments as shown in the Appendix to the Invitation to Comment which acknowledge that friendly societies may have unallocated surplus that is in the nature of "policyholder equity".

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Steve Somogyi', written over a horizontal line.

Steve Somogyi  
Member, Executive Group