



29 November 2005

The Chairman  
Australian Accounting Standards Board  
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Dear Mr Boymal,

**Re: Invitation to comment – “Policyholder Equity” of Friendly Societies and AASB 1038 Life Insurance Contracts**

Thank-you for the opportunity to comment on the Board’s proposal to amend AASB 1038 to acknowledge that friendly societies may have unallocated surplus that is “policyholder equity”.

In regard to the proposed changes to AASB 1038, we support the proposals but would ask the Board to consider extending the requirements of paragraph 17.5.4(b) to specify that, in cases where this paragraph applies, the discretionary participation feature should be classified as a liability where the rules of the life insurance contract do not permit the recognition of policyholder equity.

On a broader issue in relation to the application of AASB 1038 to (former) friendly societies, we would ask the Board to consider the impact on general purpose financial reporting of consolidation of friendly society benefit funds into the financial report of the friendly society and its parent entity (if any).

Our view, which we believe is shared by other industry participants, is that the change from reporting under APRA Prudential Rule 47 will result in material distortion in the reported results and financial position of the friendly society and the consolidated financial statements of its parent entity.

The distortion arises because a (former) friendly society will once again be required to consolidate assets and liabilities in which it has a bare legal interest but no beneficial interest. Appropriate parallels could be drawn with the assets and liabilities administered by trustee companies or the responsible entities of managed investment schemes, which are not consolidated.

The impact of the change would appear to be contrary to one of the main objects of Part 12 of the ASIC Act, Section 224, being, inter alia, “to facilitate the development of accounting standards that require the provision of financial information that . . . . . is **relevant to assessing performance, financial position, financing and investment**, is relevant and reliable, **facilitates comparability** and is readily understandable”

We would be happy to discuss the above views with the Board or its staff.

Yours sincerely,

A handwritten signature in black ink that reads "A V Connon".

A V Connon  
Chief Financial Officer