General enquiries: Telephone 1300 1300 38 Internet: www.lifeplan.com.au e-mail: enquiries@lifeplan.com.au

30 November 2005

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West VIC 8007

Dear Sir

"Policyholder Equity" of Friendly Societies and AASB 1038 *Life Insurance Contracts*

We refer to the correspondence issued by the Australian Accounting Standards Board, discussing the impacts of AASB 1038 on Friendly Societies. We appreciate being given the opportunity to provide comment on these proposed changes.

Lifeplan Australia Friendly Society Ltd currently has in excess of $1 Billion under management and is one of the top five Friendly Societies in Australia. We currently offer a range of products to our members that include capital guaranteed investment and funeral products as well as the traditional products associated with Friendly Societies.

1. Consistent Reporting

As a Friendly Society we offer a range of different Funds:

- Capital Guaranteed Defined Contribution Funds,
- Market Linked Funds (not capital guaranteed but may still be classed as Defined Contribution for reporting purposes), and
- Defined Benefit Funds (Traditional Funeral and Accident Funds).

AASB 1038 has not previously applied to Friendly Societies because of the exemption under Prudential Rule 47 (PR 47). The above group of Funds will not all be classified under AASB 1038 because they will not all be classed as "Life Insurance Contracts". The first issue is that if Policyholder equity refers only to those contracts issued under AASB 1038 then this may result in inconsistent disclosure between Funds that are offered by Friendly Societies. I do agree with the comments on page 4 of the invitation to comment paper where it is stated that because there may be uncertainty as to where the surpluses can be allocated then the amounts should remain as Policyholder equity. What is the treatment for those contracts that fall outside AASB 1038 being the Funds that are treated as Investment Contracts under AASB 1038 par. 12? How should unallocated amounts be treated for those Funds? In the past consistent reporting was achieved by the requirements of PR47 but its proposed removal may result in the financial reports of a Friendly Society becoming complex and difficult for the members to understand.

As an example, a Friendly Society may offer three types of Funds: Non Capital Guaranteed Market Linked, Capital Guaranteed (annual bonus paying) and Defined Benefit. The Market Linked Fund may have unallocated surpluses at year end that have arisen from timing differences due to taxation imputation credits or other differences. As the price is calculated on a regular basis I consider any unallocated balance to be an entitlement of the members of the Fund at some future point in time. Capital Guaranteed Funds will have Capital Adequacy requirements and may also have a small unallocated balance that occurs because of declaring the bonus as a rounded percentage. I believe the Market Linked and Capital Guaranteed Funds will be classified as Investment Contracts and therefore fall outside AASB 1038 requiring consideration under AASB 139 and AASB 118. Legislation requires Capital Adequacy reserves as determined by an Actuary to be set aside for both the Capital Guaranteed and Defined Benefit Funds to ensure adequate provision for member entitlements. Defined Benefit Funds are within the scope of the discussion paper. The Defined Benefit Funds may have an unallocated balance that comprises Capital Adequacy reserves and an unallocated balance that is consistent with the example outlined on page 4, i.e. a surplus that may be allocated in accordance with a number of alternatives depending on the constitution of the Society.

I would agree that where there is any uncertainty as to the proposed or final allocation of surpluses then Policyholder Equity may be appropriate disclosure. The other point for consideration is consistency across all the Funds offered by Friendly Societies. With the proposed removal of PR 47 I believe we will have reporting that may be difficult for the reader to understand. If we are required to disclose balances as amounts other than "Policyholder Equity" how will this be interpreted by the readers of the financial report?

2. Reserving

The other issue is the treatment of reserves for Capital Adequacy purposes. As discussed above with the Capital Guaranteed and Defined Benefit Funds there are amounts retained for reserves. Currently under PR 47 these amounts are disclosed within the unallocated surpluses of Members Funds. Guidance is needed as to how these amounts should be disclosed, i.e. should they form part of "Policyholder equity" or should they be disclosed as another liability. In considering the two different contracts can the changes proposed by the AASB only be applied to contracts under AASB 1038?

Again we thank the Board for the opportunity to provide comment. If you should require any further clarification on any of the above do not hesitate to contact myself.

Regards

C Fowler

Craig Fowler
Accounting Manager
Email: craig.fowler@lifeplan.com.au

cc: Jane Southwell (Executive Director) Australian Friendly Societies Association