

Mr David Boymal  
The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West

30 August 2007

Dear Sir,

**AASB Invitation to Comment (ITC 12)  
Proposed Revised Differential Reporting Regime for Australia**

Insurance Australia Group (IAG) provides this submission in relation to the AASBs Invitation to Comment: Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of *A Proposed IFRS for Small and Medium-sized Entities*.

The IAG Group currently incorporates nearly 40 legal entities registered in Australia. While for many of these entities, general purpose financial reports were prepared as at 30 June 2007, a number of special purpose financial reports were prepared for other subsidiaries, and for a few entities no financial reports were prepared. For those wholly-owned subsidiaries for which special purpose financial reports were prepared (generally intragroup holding companies or special purpose entities), the Directors considered that while financial reports were required to be prepared to satisfy requirements of the Corporations Act, there are no users of the financial reports and so the time, effort and cost of preparing general purpose financial reports was not warranted.

**IAG's position**

The IAG Group supports continuation of Australia's differential reporting regime but accepts that clarification of the required content of special purpose financial reports may be useful.

**Expected IAG response to issuance of IFRS for SMEs**

It is IAG Group policy that the IAG Group accounting policies (IAG GAAP) be adopted by a subsidiary for local reporting purposes wherever allowable under local accounting standards. This policy applies both for Australia and overseas operations. Reducing the number of differences between an entity's local accounting policies and the accounting policies applied for IAG Group consolidation, reduces the

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administrative burden of maintaining accounting records and reduces financial reporting risk.

While no formal policy decision would be made until a final version of an IFRS for small and medium-sized entities (SMEs) was available, our preliminary view is that the available option of application of the SME standard would not be taken up. The benefits to the Group of consistent application of full AIFRS in preparation of the IAG Group financial report are paramount. Under the current proposals, this would mean that subsidiaries within the group that currently prepare financial reports that comply wholly with the recognition, measurement, and presentation requirements of AIFRS but which prepare simplified reports in terms of supporting disclosures would need to prepare significantly expanded reports.

We consider that the additional time, effort and cost that would be involved in the preparation of general purpose financial reports for those entities is not warranted and is inconsistent with current government initiatives looking to reduce the corporate regulatory burden.

Much of the information for the subsidiaries required by full AIFRS is made available as part of the preparation of the financial reports for the IAG Group consolidated financial report (not however all of the narrative), but that information if included in the subsidiary financial report would be subjected to much lower materiality thresholds for both internal review and audit which would impact directly on the time, effort and cost of preparing the financial reports.

It is for these reasons that we support a differential reporting regime that allows for certain entities to prepare financial reports that comply wholly with the recognition, measurement, and presentation requirements of AIFRS but which prepare simplified reports in terms of supporting disclosures. All information provided in such reports would be completely comparable with the reports of entities that comply with AIFRS, there would just be less information to compare.

The preparation of special purpose financial reports for subsidiaries of the IAG Group that could not claim compliance with IASB IFRSs would not be a concern.

#### **AASB's interpretation of general purpose financial reporting**

The Preface to International Financial Reporting Standards reads (paragraph 10) 'IFRSs apply to all general purpose financial statements'. The IASB standards refer to general purpose financial statements as those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus.

A general purpose financial report is defined in AASB 101 (in an Aus paragraph not appearing in IASB version) as 'a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs'.

We understand that the AASB has tentatively decided (ITC12, page xi) that, under a revised financial reporting regime, all financial reports that are on a public register, such as those prepared and lodged with the Australian Securities and Investments Commission (ASIC) under the Corporations Act, or otherwise made available to the public at large, such as those tabled in Parliament, would be regarded as general purpose financial reports. This tentative decision is labelled as being consistent with the IASB definition of general purpose financial reports however we disagree with this interpretation.

The core principle of general purpose financial reports relates to meeting the information needs of users. It is our understanding that the Corporations Act requirement regarding the lodgement of financial reports is based on a public policy decision that considers a large number of factors other than the needs of potential users who are unable to command the preparation of financial reports that satisfy their information needs.

We consider that only a subset of the financial reports lodged with ASIC relate to entities for which there exists users unable to command the preparation of reports that satisfy their information needs.

We also consider the preparation of a financial report as a general purpose financial report should be linked to the purpose for which general purpose financial reports are prepared rather than the administrative listing of the report on a public register.

The IASB notes (BC33) 'that, ultimately, decisions on which entities should use the IFRS for SMEs will rest with national regulatory authorities and standard-setters'. This indicates that the IASB expects national regulatory authorities to establish rules around which entities are to apply which accounting standards.

And so we consider it appropriate for continuation of Australia's differential reporting regime based on the reporting entity concept.

### **Reporting entity definition**

We understand that there is a view that the application by Directors of judgement in deciding whether an entity is a reporting entity incorporates too much subjectivity resulting in varied application of the concept. This concern would seem out of line with Australia's support for the use of principles based accounting standards which necessitates the application of judgement by Directors in many areas. IAG supports the use of principles based standards in Australia where there is a large body of persons with the skills and experience needed to make the necessary judgements.

We accept that such judgements should be supported by, as is currently the case, adequate disclosure to enable users to understand the judgements that have been made.

### **Fiduciary capacity**

The IASB has proposed that the IFRS for SMEs would not be available to be applied for entities that have 'public accountability'. It goes on to provide that an entity is considered to have public accountability if 'it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity'.

We are of the view that the assets held by a general insurer are not held in the capacity as a fiduciary. Indeed, a general insurer is a distinctly different type of entity to those other deposit taking and investment vehicles referred to in the definition. The assets of a general insurer are held to meet obligations to creditors, including policyholder liabilities, of the general insurer. If no claim is made the general insurer retains the assets, which form part of total shareholder funds. This contrasts greatly with the obligations that, say, a bank (with regard, for example, to depositors' funds) or a life insurer (with regard to an investment product) would have to their stakeholders.

We therefore recommend that the reference to 'insurance company' in the definition be amended to specifically exclude general insurers. However, we understand that the IASB faces some difficulty in separating the definition of an insurance contract for different jurisdictions between life insurance products and general insurance products and so it may be preferable to simply eliminate what amounts to guidance in the scope paragraph altogether and just refer to entities having fiduciary capacity.

We understand that the AASB encouraged submissions to also be made to the IASB but note that we have not forwarded this submission to the IASB as it relates to the proposed revised differential regime for Australia only and not the detailed technical proposals of the IFRS for SMEs standard.

If you would like to discuss this matter further please do not hesitate to contact Mr David Southwell or myself.

Yours faithfully,



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