



29 October 2007

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Dear Sirs

ITC 13: Request for Comment on IASB Discussion Paper *Preliminary Views on Insurance Contracts*

The Institute commends the work of both the International Accounting Standards Board (IASB) and the Australian Accounting Standards Board (AASB) in the formulation of the Discussion Paper in the first instance and the extensive roundtable and consultative process undertaken.

Divergent accounting practices for insurance contracts around the world are not sustainable and therefore we support the objective of the IASB to issue a comprehensive standard dealing with all insurance contracts. Support and adoption by the Financial Accounting Standards Board (FASB) will add significant stature to any new IASB standard on insurance. Therefore we encourage the IASB to actively pursue FASB support.

The Institute supports the Discussion Paper issued by the IASB with a view to adoption in Australia. Our support is based on the principles outlined in the paper which apply the three building blocks approach to the measurement of insurance liabilities.

We understand, through our discussion with industry representatives that a number of practical application problems exist with the proposed model. We therefore support the submission made by the Accountants and Actuaries Liaison Committee in identifying and analyzing these application issues. We request that further analysis be done on these areas in order to achieve a practical solution for entities holding insurance contracts.

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We also note that the Discussion Paper provides very limited guidance in relation to potential disclosure. Given the subjective nature of many aspects of insurance accounting, we expect that extensive disclosure of assumptions, methodologies and accounting treatments will be needed to ensure that financial reports of insurers provide meaningful information.

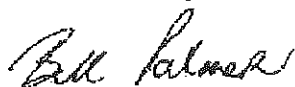
The areas of particular concern to industry participants include:

1. Accounting mismatch issues, which can be material to Australian insurers with unit linked portfolios, are not adequately addressed by the Discussion Paper. To provide meaningful financial analysis of insurers' performance we see merit in having a fair value concept for all assets backing insurance and associated contracts
2. The model conceptually could lead to Day 1 gains and losses, however given the competitive nature of the Australian industry we consider that the standard should note that this situation should be rare and only recognized after careful consideration of the high level of uncertainty surrounding the development of future claims. Again, where such losses or gains do exist, appropriate disclosure should be provided.
3. The requirement to measure liabilities at observed market prices will not be practical in Australia due to there being no local secondary market for insurance contracts. This could result in significant subjectivity in determining and supporting the risk or service margins a market participant would demand. The industry considers entity-specific data to be more meaningful and more readily available than market data.
4. The Discussion Paper suggests that diversification benefits cannot be taken into account when determining current exit values (and by association the risk margins), however this is fundamental to how a general insurer operates.

The support for the introduction of exit value measurement into insurance liabilities should not been seen as support for the introduction of this same concept for financial reporting in other sectors. We consider that other sectors may have similar contracts to 'insurance contracts' and thereby any extension of this concept into other areas should be subject to its own due process at the appropriate time.

If you require any further information please contact Kerry Hicks, Head of Reporting, on 029290 5703.

Yours faithfully



Bill Palmer
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