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Dear Kevin

AASB ED 201 & IASB ED 2010/8 INSURANCE CONTRACTS

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 201 which is a re-badged copy of the International Accounting Standards Board's (the Board) Exposure Draft ED 2010/8 (the ED). We have considered the ED as well as the accompanying draft Basis for Conclusions, and set out our main comments below. Our responses to the questions in the ED's Invitation to Comment and the AASB's separate questions are set out in the Appendix.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies, and public and private businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International which is working on a global submission to the IASB, and discussions with key constituents.

The views expressed here are preliminary in nature, and a more detailed Grant Thornton global submission is being considered for finalisation by the IASB's due date of 30 November 2010. If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

Appendix 1: Response to the invitation to comment questions

Invitation to comment questions

Question 1 – Relevant information for users (paragraphs BC13–BC50 of ED/2010/8)

Do you think that the proposed measurement model will produce relevant information that will help users of an insurer's financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

- Agree that the proposed comprehensive measurement model would produce relevant information that will help users of an insurer's financial statements to make economic decisions for the reasons identified in paragraph 12 above. But some of the proposals, particularly the proposals in relation to the residual margin, income statement presentation and transitional requirements, are likely to prove troublesome.
- The IASB made a decision that the risk adjustment should, if applicable, reflect the effects of diversification that arise within a portfolio of insurance contracts. The Board said that the effect of diversification between that portfolio and other portfolios of insurance contracts could not be taken into account. Conceptually this might be sound thinking – but at the end of the day IFRS is about reporting on an insurance entity: not individual contracts or even portfolios of contracts so some might say there does appear to be some disconnected thinking here.
- Note that a premium allocation approach for short-duration insurance contracts may not always relevant information for decision making by users in all circumstances, because in certain instances:
  - a the proposed comprehensive measurement (building block) approach would provide more relevant information for users; and
  - b the insurance contract is onerous.

Question 2 – Fulfilment cash flows (paragraphs 17(a), 22–25, B37–B66 and BC51 of ED/2010/8)

a *Do you agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract? Why or why not? If not, what do you recommend and why?*

b *Is the draft application guidance in Appendix B on estimates of future cash flows at the right level of detail? Do you have any comments on the guidance?*

- Agree that the measurement of an insurance contract should include the expected present value of future cash flows that will arise as the insurer fulfils the insurance contract for the reasons described in paragraph 14 above.
- Agree that the draft application guidance in Appendix B on estimates of future cash flows to be generally appropriate and sufficient. For many smaller insurance entities compliance with these requirement will be demanding.

Question 3 – Discount rate (paragraphs 30–34 and BC88–BC104 of ED/2010/8)

a *Do you agree that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?*

b *Do you agree with the proposal to consider the effect of liquidity, and with the guidance on liquidity (see paragraphs 30(a), 31 and 34)? Why or why not?*

c *Some have expressed concerns that the proposed discount rate may misrepresent the economic substance of some long-duration insurance contracts. Are those concerns valid? Why or why not? If they are valid, what approach do you suggest and why? For example, should the Board reconsider its conclusion that the present value of the fulfilment cash flows should not reflect the risk of non-performance by the insurer?*

- Agree that the discount rate used by an insurer for nonparticipating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability for the reasons discussed in paragraph above
- Agree with the proposals for an insurer to include, when appropriate, an illiquidity premium in the discount rate for insurance contract liabilities and with the guidance on liquidity for the reasons discussed above.

Question 4 – Risk adjustment versus composite margin (paragraphs BC105–BC115 of ED/2010/8)

Do you support using a risk adjustment and a residual margin (as the IASB proposes), or do you prefer a single composite margin (as the FASB favours)? Please explain the reason(s) for your view.

- We support the IASB's proposals for an insurer to measure claims liabilities in relation to insurance contracts using an explicit risk adjustment and residual margin as opposed to the FASB's composite margin approach because the IASB's proposals:

  a would arguably provide more useful information to users of an insurer's financial statements about the insurer's perceptions of the effects of uncertainty on the amount and timing of future claims liability cash flows. Under the FASB's composite margin approach, a risk adjustment would not be separately calculated and therefore not disclosed in an insurer's financial statements. Moreover, under the FASB's approach, the risk adjustment would not be subject to remeasurement, which is inconsistent with the nature of insurance contracts and recent experiences that suggest market perceptions of risk can change rapidly.

  b are consistent with the economics of insurance contracts in the sense that insurers generally price insurance contracts to reflect the underlying insurance risks. Moreover, where an insurer has not included a risk adjustment in its claims liabilities, this would be reported under the IASB's proposals whereas it would not be reported under the FASB's composite margin approach.

  c are consistent with its proposals in ED/2010/1 *Measurement of Liabilities in IAS 37 – Proposed amendments to IAS 37*. However, it is relevant to note that, at its September 2010 meeting, the IASB decided to reconsider the proposal to require a risk adjustment to be included in the measurement of a liability under a revised version of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and experience in New Zealand and Australia confirms that a risk adjustment can be reliably determined for an insurance contract.

Question 5 – Risk adjustment (paragraphs 35-37, B67-B103 and BC105–BC123 of ED/2010/8)

a Do you agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected? Why or why not? If not, what alternatives do you suggest and why?

b Paragraph B73 limits the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation (CTE) and cost of capital techniques. Do you agree that these three techniques should be allowed, and no others? Why or why not? If not, what do you suggest and why?

c *Do you agree that if either the CTE or the cost of capital method is used, the insurer should disclose the confidence level to which the risk adjustment corresponds (see paragraph 90(b)(i))? Why or why not?*

d *Do you agree that an insurer should measure the risk adjustment at a portfolio level of aggregation (i.e. a group of contracts that are subject to similar risks and managed together as a pool)? Why or why not? If not, what alternative do you recommend and why?*

e *Is the application guidance in Appendix B on risk adjustments at the right level of detail? Do you have any comments on the guidance?*

- Agree with the proposal that the risk adjustment should depict the amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected because:
  - i it would provide useful information to users of an insurer's financial statements about the insurer's perceptions of the effects of uncertainty on the amount and timing of future claims liability cash flows, and
  - ii it is consistent with the underlying principle of the proposed model.
- Note that the risk adjustment proposals in ED/2010/8 are consistent with the IASB's proposals in ED/2010/1 *Measurement of Liabilities in IAS 37 – Proposed amendments to IAS 37*.
- Agree the proposed techniques for estimating risk adjustments (confidence level, CTE and cost of capital techniques) but disagree with the proposal to limit the techniques to only those three identified because such an approach:
  - i is inconsistent with principle-based standard setting, and
  - ii would potentially prevent insurers using new and better risk measurement techniques in the future.
- Suggest that a rebuttable presumption that an insurer would be required to use one of the three identified techniques unless another method provides a more relevant and/or reliable measure of the risk adjustment.
- Agree that, if either the CTE or the cost of capital technique is used, the insurer should disclose the confidence level to which the risk adjustment corresponds because it would:
  - i assist users, particularly those in jurisdictions where the confidence level technique (or similar techniques) is widely used, and
  - ii enhance the comparability of financial statements between insurers and over time.
- Disagree proposal that an insurer should measure the risk adjustment at a portfolio level of aggregation because:

i it is inconsistent with the way many insurers manage their insurance portfolios

ii it is inconsistent with the ED's acknowledgement that diversification benefits across portfolios are relevant to the accounting for reinsurance contracts, and

iii fungibility' is arguably not a relevant justification for prohibiting the risk adjustment from reflecting diversification benefits across an insurer's portfolios, particularly for insurers that do not have statutory funds or can mitigate the effects of having surpluses and deficits across their portfolios through the use of borrowings.

In addition, the ED proposes that insurers aggregate risk adjustments at a different level to incremental acquisition costs and residual margins. Accordingly, suggest that the IASB give further consideration to the implications of requiring an insurer to measure insurance contracts using building blocks that have been determined at different levels of aggregation; and

- Agree the draft application guidance in Appendix B on risk adjustments is appropriate and sufficient.

Question 6 – Residual/composite margin (paragraphs 17(b), 19–21, 50–53 and BC124–BC133 of ED/2010/8)

a Do you agree that an insurer should not recognise any gain at initial recognition of an insurance contract (such a gain arises when the expected present value of the future cash outflows plus the risk adjustment is less than the expected present value of the future cash inflows)? Why or why not?

b Do you agree that the residual margin should not be less than zero, so that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss (such a loss arises when the expected present value of the future cash outflows plus the risk adjustment is more than the expected present value of future cash inflows)? Why or why not?

c Do you agree that an insurer should estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period? Why or why not? If not, what do you recommend and why?

d Do you agree with the proposed method(s) of releasing the residual margin? Why or why not? If not, what do you suggest and why (see paragraphs 50 and BC125– BC129)?

e Do you agree with the proposed method(s) of releasing the composite margin, if the Board were to adopt the approach that includes such a margin (see the Appendix to the Basis for Conclusions)? Why or why not?

f Do you agree that interest should be accreted on the residual margin (see paragraphs 51 and BC131–BC133)? Why or why not? Would you reach the same conclusion for the composite margin? Why or why not?

- Agree with the proposal to prohibit an insurer from recognising any residual margin as a gain at initial recognition of an insurance contract because residual margins generally comprise profit that will be earned over the term of the contract and recognising such profit at inception would be inconsistent with the treatment of similar contracts under other IFRSs;
- Agree with the proposal that an insurer recognise a negative residual margin at initial recognition of an insurance contract as a loss immediately in profit or loss because such an approach is consistent with the treatment of onerous contracts under other IFRSs and with the prospective measurement approach proposed in the ED;
- Disagree with the proposal that an insurer estimate the residual margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period because of the reasons discussed in (d) below;
- Disagree with the proposed method of releasing residual margins because:
  - i it is inconsistent with the proposed treatment of such margins at inception;
  - ii profit recognition would potentially be influenced more by the assumptions used to measure insurance contract liabilities than actual experience;
  - iii it would give rise to anomalous outcomes in some relatively common circumstances; and
  - iv reliable information for remeasuring residual margins in the form of market prices would be readily available for most types of insurance contracts.

Accordingly, suggest that:

- v residual margins should be subject to remeasurement on the basis of changes in estimates of non-market variables (non-financial assumptions) that have an impact on the expected net fulfilment cash flows in future periods; and
- vi if residual margins are subject to remeasurement, the criteria for similar coverage period would be arguably sufficient for aggregating residual margins in relation to 'open' portfolios of insurance contracts, provided that the portfolios comprise insurance contracts with similar terms and conditions;

- Agree that the proposed method of releasing the composite margin is consistent with the nature of such a margin. However, as noted in Question 4, our preference is for an explicit risk adjustment and residual margin approach over a composite margin approach; and
- Agree with the proposal for interest to be accreted on the residual margin because it is a part of an insurance contract liability and other parts of the liability are subject to the accretion of interest.

Question 7 – Acquisition costs (paragraphs 24, 39 and BC135–BC140 of ED/2010/8)

Do you agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not? If not, what do you recommend and why?

- Agree with the proposal to include only incremental acquisition costs in the initial measurement of the insurance contract as contract cash outflows because:
  a insurers generally factor such costs into the prices of their insurance contracts

  b such an approach is likely to provide a more realistic depiction of profit over the life of the contract, and

  c such an approach is consistent with the treatment of acquisition costs in relation to similar types of contracts under other IFRSs.

- Given our responses to Questions 5 and 6, we believe that the IASB should give further consideration to requiring insurance contracts to be measured using building blocks that have been determined at the same level of aggregation. ED/2010/8 proposes that the building blocks be determined at different levels of aggregation and state we are concerned that this approach could undermine the usefulness of the resulting information for users of an insurer's financial statements.
- Agree that non-incremental acquisition costs and acquisition costs relating to unsuccessful underwriting efforts should be recognised as expenses when incurred because such an approach is consistent with the treatment of similar costs under other IFRSs.

Question 8 – Premium allocation approach (paragraphs 54-60 and BC145-BC148 of ED/2010/8

a Should the Board

i require,
ii permit but not require, or
iii not introduce a modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts? Why or why not?

b *Do you agree with the proposed criteria for requiring that approach and with how to apply that approach? Why or why not? If not, what do you suggest and why?*

- Agree with the proposal to include a modified measurement approach for short duration contracts, but disagree with requiring such an approach because:
  - i it is inconsistent with principle-based standard setting, and
  - ii it would prevent an insurer from applying the proposed comprehensive measurement approach, even when the comprehensive approach would provide more relevant and/or reliable information for users.

Suggest that IFRS 4 should permit (rather than require) a premium allocation approach for short-duration insurance contracts;

- Disagree with the proposal that interest be accreted on short-duration insurance contracts because such an approach is:
  - i inconsistent with the view that a premium allocation approach is a simplified or short-cut method for measuring particular types of insurance contracts; and
  - ii unlikely to significantly affect the amounts reported by insurers in relation to insurance contracts because the discounting period will be short; and
- Disagree with the proposal that the remeasured amount of onerous short-duration insurance contracts should not include a risk adjustment because it is inconsistent with the proposed comprehensive measurement approach.

Question 9 – Contract boundary principle (paragraphs 26-29 and BC53-BC66 of ED/2010/8)

Do you agree with the proposed boundary principle and do you think insurers would be able to apply it consistently in practice? Why or why not? If not, what would you recommend and why?

- Agree with the proposed boundary principle because:
  - a it is principle-based;
  - b it is consistent with notion of insurance risk as defined in the ED, and
  - c insurers would generally be able to apply it consistently in practice.
- However, the IASB needs to better articulate the impact of contract terms versus the legal environment in a jurisdiction to assist entities such as health insurers to identify contract boundaries consistently.

Question 10 – Participating features (paragraphs 23, 62-66, BC67-BC75 and BC198- BC203 of ED/2010/8)

a Do you agree that the measurement of insurance contracts should include participating benefits on an expected present value basis? Why or why not? If not, what do you recommend and why?

b Should financial instruments with discretionary participation features be within the scope of the IFRS on insurance contracts, or within the scope of the IASB's financial instruments standards? Why?

c Do you agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity? Why or why not? If not, what do you recommend and why?

d Paragraphs 64 and 65 modify some measurement proposals to make them suitable for financial instruments with discretionary participation features. Do you agree with those modifications? Why or why not? If not, what would you propose and why? Are any other modifications needed for these contracts?

- Agree that the measurement of insurance contracts should include participating benefits on an expected present value basis because:
    - i they are a part of the bundle of rights and obligations that form an insurance contract, and
    - ii such an approach would facilitate participating benefits being measured on the same basis as other components of an insurance contract would be measured.

- Agree that financial instruments with discretionary participation features should be within the scope of the IFRS on insurance contracts because:
    - i notwithstanding a financial instrument with a discretionary participation feature would not generally transfer significant insurance risk, because of the way 'discretionary participation feature' is defined in the ED the cash flows attributable to such features are impacted by insurance risk. Accordingly, including financial instruments with discretionary participation features within the scope of the replacement Standard for IFRS 4 would facilitate such instruments being treated in a manner consistent with the treatment of the related insurance contracts, and
    - ii under the proposals in the ED, financial instruments with discretionary participation features would be measured using substantially the same way as they would be measured under other IFRSs, such as IAS 39.

- Agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity for the reasons outlined in paragraph (b)(i) above.
- Agree with the modifications proposed in paragraphs 64 and 65 of ED/2010/8 because they would facilitate participating benefits being measured on the same basis as other components of an insurance contract would be measured.

Question 11 – Definition and scope (paragraphs 2-7, B2-B33 and BC188-BC209 of ED/2010/8)

a Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

b Do you agree with the scope exclusions in paragraph 4? Why or why not? If not, what do you propose and why?

c Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

- Agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191. In addition, under the proposals in the ED, the term 'significant insurance risk' is assessed from the insurer's perspective, not the policyholder's perspective (see paragraph 94 above), because:
  - i the scope of the ED is limited to accounting for insurance contracts by insurers and reinsurers and does not contemplate the accounting implications of insurance contracts from a policyholders' perspective; and
  - ii paragraph B24 states, in part, that: "Insurance risk is significant, if, and only if, an insured event could **cause an insurer to pay s**ignificant additional benefits in any scenario…" (emphasis added);
- Agree that the scope exclusions in paragraph 4 of ED/2010/8 because they would facilitate all contracts that expose the issuer to significant insurance risk being accounted for in a consistent manner; and
- Agree that contracts currently defined in IFRSs as financial guarantee contract should be brought within the scope of the replacement Standard for IFRS 4 in the manner proposed in ED/2010/8 because such an approach would facilitate financial guarantee contracts that expose the issuer to significant insurance risk to be accounted for on the same basis as other types of contracts that expose the issuer to the same type and level of risk.

Question 12 – Unbundling (paragraphs 8-12 and BC210-BC225 of ED/2010/8)
Do you think it is appropriate to unbundle some components of an insurance contract? Do you agree with the proposed criteria for when this is required? Why or why not? If not, what alternative do you recommend and why?

- Agree that it is appropriate to require insurers to unbundle some components of an insurance contract; and
- Agree with the proposed criteria for unbundling insurance contracts because:
  - a they would facilitate consistency and comparability in financial reporting by ensuring non-insurance components of insurance contracts are treated in a similar manner as financial instruments that are separate contracts but similar in all other respects; and

  - b they represent a practical solution that avoids entities being required to report information based on arbitrary allocations of cash flows.

- Observe that the phrases 'interdependent' and 'closely related' are used somewhat interchangeably in the ED, although the phrases arguably do not have the same meanings. Accordingly, the IASB needs to clarify whether insurers should unbundle insurance contracts on the basis of 'interdependent' or 'closely related' cash flows. On balance, we opt for 'interdependent' on the basis that it is more consistent (than 'closely related') with the IASB's reasoning for not requiring unbundling when separating cash flows would give rise to reporting outcomes that are not reliable.

Question 13 – Presentation (paragraphs 69-78 and BC150-BC183 of ED/2010/8)

a Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?

b Do agree that an insurer should present all income and expense arising from insurance contracts in profit or loss? Why or why not? If not, what do you recommend and why?

- Disagree with the proposed 'summarised margin' approach as it would not facilitate comparability between the financial statements of entities with insurance activities and other entities. Accordingly, the proposals in ED/2010/8 should be amended to require an insurer that applies the proposed comprehensive measurement approach to present resulting income and expense items in accordance with an 'expanded margin' approach. Under an expanded margin approach, an insurer would present gross flow information, such as premiums, benefit payments, claim expenses and claims handling expenses, on the face of the financial statements with the underwriting margin information.
- Due to the lack of a generally accepted principle for determining which items should be presented in profit or loss and which items should be presented in other comprehensive income, the proposed approach does not necessarily have a sound conceptual basis.

Until that principle is resolved, an insurer should present all income and expense items arising from insurance contracts in profit or loss.

Question 14 – Disclosures (paragraphs 79-97, BC242 and BC243 of ED/2010/8)

a *Do you agree with the proposed disclosure principle? Why or why not? If not, what would you recommend, and why?*

b *Do you think the proposed disclosure requirements will meet the proposed objective? Why or why not?*

c *Are there any disclosures that have not been proposed that would be useful (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful.*

- Agree that the proposed disclosure principles because they would facilitate an insurer disclosing useful information about the amounts recognised in its financial statements and the risks to which it is exposed in relation to insurance contracts.
- Agree that the proposed disclosure requirements would meet the proposed objective.
- The IASB needs to align the disclosure requirements in the replacement Standard for IFRS 4 in relation to sensitivity analyses with the corresponding disclosure principles in the revised versions of IAS 19 *Employee Benefits* for defined benefit obligations and IFRS 7 for Level 3 fair value measurements (noting that Grant Thornton does not support the IASB's most recent proposals regarding the disclosures of ranges of amounts for Level 3 fair value measurements. However, if the IASB's recent proposals in respect of IFRS 7 were adopted, we would recommend they be consistent with similar disclosures in respect of insurance liabilities.

Question 15 – Unit-linked contracts (paragraphs 8(a)(i), 71 and 78, Appendix C and paragraphs BC153-BC155 and BC184-BC187 of ED/2010/8)

Do you agree with the proposals on unit-linked contracts? Why or why not? If not what do you recommend and why?

Agree with the proposals on unit-linked contracts, primarily because they would reduce the potential for significant accounting mismatches to arise.

Question 16 – Reinsurance (paragraphs 43-46 and BC230-BC241 of ED/2010/8)

a *Do you support an expected loss model for reinsurance assets? Why or why not? If not, what do you recommend and why?*

b *Do you have any other comments on the reinsurance proposals?*

- Agree with the proposal for an expected loss model for reinsurance assets, primarily because it is consistent with the proposed measurement approach for insurance liabilities (expected present value of the future cash flows) and therefore is less likely to give rise to asymmetrical accounting treatments, and
- We challenge the requirement that insurers being required to recognise a gain on inception of a reinsurance contract. Such an approach is inconsistent with the IASB's reasoning for proposing that a residual margin be recognised to avoid the recognition of 'day-one' gains. In addition, we do not consider the IASB's reasons outlined in paragraph BC236 are sufficient to justify the proposed approach, particular the observations regarding diversification benefits. Contrary to the approach in ED/2010/8, the logic underlying the proposed approach applicable to residual margins arising from direct insurance contracts should be extended to residual margins arising from reinsurance arrangements. Accordingly:
  a 'positive' residual margins (losses at inception on reinsurance arrangements) should be recognised as losses in the profit or loss on inception of the reinsurance contract, and

  b 'negative' residual margins (gains at inception on reinsurance arrangements) should be released to profit or loss over the coverage period in a systematic manner based on the passage of time, unless the pattern of claims and benefits makes another pattern more appropriate.

- In addition, note that paragraph 50 of ED/2010/8, which appears to deal with the subsequent treatment of all residual margins (those related to direct and reinsurance contracts), states that

  > *"An insurer shall recognise the residual margin determined at initial recognition as income in profit or loss…"*

However, a residual margin that arises in a reinsurance contract is in the nature of a loss. Accordingly, we recommend that, if the IASB adopts the proposals in respect of residual margins, paragraph 50 be amended to require the residual margin to be recognised as income or expense in profit or loss.

Question 17 – Transition and effective date (paragraphs 98-102 and BC244-BC257 of ED/2010/8)

a *Do you agree with the proposed transition requirements? Why or why not? If not, what would you recommend and why?*

b *If the Board were to adopt the composite margin approach favoured by the FASB, would you agree with the FASB's tentative decision on transition (see the appendix to the Basis for Conclusions)?*

c *Is it necessary for the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9? Why or why not?*

d *Please provide an estimate of how long insurers would require to adopt the proposed requirements.*

- Agree with the proposed transitional requirements except for the proposal to eliminate any existing residual margins against opening retained earnings upon transition. This is on the basis that:
  - a insurers that are currently accounting for insurance contracts on a similar basis to the proposals in the ED could apply the proposed requirements retrospectively and the IASB's 'normal' position under IAS 8 is that retrospective application should be performed, subject to impracticability, and
  - b would potentially reduce the comparability of the financial statements of insurers that were reporting under IFRS 4 prior to transition and insurers that establish themselves after the transition to the new reporting requirements.

Entities should be permitted to assess for themselves whether retrospective application of the replacement Standard for IFRS 4 is impracticable.

- Disagree with the FASB's tentative decision on the treatment of the composite margin on transition for the reasons discussed in (a) above. The FASB proposes that the composite margin would be set equal to the risk adjustment determined under the IASB's proposals. In addition, the risk adjustment would be released to profit or loss under the FASB's proposed approach (systematically over the coverage period and claims handling period).
- Agree that insurers should:
  - a not face two rounds of major changes in a short period, and
  - b be able to avail themselves of the measurement choices under IFRS 9 to avoid any potential accounting mismatches that might arise as a consequence of transitioning from their domestic GAAP to the replacement Standard for IFRS 4.To this end, it makes sense to delay the effective date of IFRS 9 for insurers if the replacement Standard for IFRS 4 has a mandatory effective date later than 2013.

Question 18 – Other comments

Do you have any other comments on the proposals in the exposure draft?

We note that the discount rate proposals in ED/2010/8 serves to highlight the inconsistencies that currently exist across IFRSs with respect to the determination of discount rates, particularly for liabilities that are similar in nature to insurance liabilities, such as defined benefit obligations. Accordingly, we believe that the IASB should commence a comprehensive project on discount rates once the current suite of high priority projects has been completed.

Question 19 – Benefits and costs (paragraphs BC258-BC263 of ED/2010/8)
Do you agree with the Board's assessment of the benefits and costs of the proposed accounting for insurance contracts? Why or why not? If feasible, please estimate the benefits and costs associated with the proposals.

- Agree with the IASB's assessment of the benefits and costs of the proposed accounting for insurance contracts Note that, overall and after more than 10 years of development, we do believe the proposals noted in the ED will lead to improvements in the relevance and reliability of the information reported by insurers at a global level that are cost-beneficial.

Specific AASB questions

1 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- **a not-for-profit entities; and**
- **b public sector entities**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals.

2 Whether, overall, the proposals would result in financial statements that would be useful to users;

Apart from our earlier comments, we are not aware of any issues that may impact users.

3 Whether the proposals are in the best interests of the Australian and New Zealand economies.

Apart from our earlier comments on the proposals, we are not aware of any reasons that would impact on the interests of the Australian economy and our New Zealand firm may wish to comment direct to the AASB if there are any New Zealand implications.

4 Whether the proposals would be suitable for accounting for the insurance arrangements of superannuation plans.

We support the AASB's strategy of reconsidering accounting for insurance contracts by superannuation plans once the IASB has finalised its position on Insurance Contracts, however we believe that any changes to AAS 25 should not be operational for Insurance Contracts until the IASB's Insurance Contracts project is complete