INTERNATIONAL FINANCIAL REPORTING STANDARDS

Recent developments in International Financial Reporting Standards (IFRS) have raised a number of important issues for life insurers and friendly societies in terms of general purpose financial reporting, regulatory reporting and capital requirements and measurement. The Life Insurance Actuarial Standards Board (the Board) has been monitoring these developments in order to determine their likely effects on life insurers and friendly societies and to assess what changes, if any, will need to be made to its Actuarial Standards.

Background

International Financial Reporting Standards (IFRS) are issued by the International Accounting Standards Board (IASB). They set out the requirements for recognition, measurement, presentation and disclosure of general purpose financial reporting.

In July 2002, the Financial Reporting Council (FRC) directed that the Australian Accounting Standards Board (AASB) should work to adopt the IFRS standards in Australia for reporting periods beginning on or after 1 January 2005.

In October 2003 the Board made a submission to the AASB. The submission outlined the Board’s views on a number of issues for life insurers and friendly societies that would arise if Australian accounting standards were brought into line with the developing IFRS. The Board’s submission covered several major areas:

• recognition of the excess of net market value over net assets of a subsidiary;
• the availability of, and limitations on, various measurement options for assets backing insurance liabilities;
• fair value of investment contracts and the implications for deferral of acquisition costs as well as the "surrender value" floor;
• discounting of deferred tax liabilities; and
• the determination of discount rates where the value of insurance liabilities is independent of the value of the assets backing them.

Since the Board made its submission to the AASB, the IASB has issued the majority of its suite of IFRS. The AASB has also now released its own Australian equivalent accounting standards for the purpose of the 1 January 2005 deadline.

APRA’s Position
On 2 August 2004 the Australian Prudential Regulation Authority (APRA) released a statement outlining the approach that it would be taking during the implementation of IFRS. APRA will be revising its prudential standards and statistical requirements for all prudentially regulated institutions, including life insurers and friendly societies. However, APRA has indicated that it will not make any substantive IFRS-related changes to the existing prudential framework until it has completed relevant stakeholder consultations, and not before 1 July 2005 at the earliest. In the interim, life insurers and friendly societies will largely need to continue to comply with, and report in terms of, current prudential standards.

Given the relationship between the Board’s Actuarial Standards and APRA’s prudential reporting and regulatory regime, the Board intends to adopt the same strategy with respect to the Actuarial Standards for which it is responsible and will work closely with APRA during the implementation of IFRS.

**Board’s Intentions**

The Board is currently working to clarify the likely effects of IFRS for life insurers and friendly societies. At this stage, the full extent of the effects is unclear. This is particularly the case for friendly societies since they have historically been exempt from the requirements of AASB1038.

Where it is consistent with the Board’s obligations under the *Life Insurance Act* 1995, the Board will aim to align its Actuarial Standards with the requirements of the general purpose accounting standards. However, the Board recognises that IFRS may affect the general purpose accounting requirements for life insurers and friendly societies in such a way that some element of dual reporting may ultimately be necessary to preserve the integrity of the principles required under the *Life Insurance Act* 1995 and appropriate capital provisions that underly the Actuarial Standards.

The Board intends to release a paper later in the year outlining the issues raised by IFRS, implications of APRA’s emerging views and the Board’s views on appropriate changes to the Actuarial Standards.