

Accounting Standard

AASB 2005-10

September 2005

Amendments to Australian Accounting Standards

**[AASB 132, AASB 101, AASB 114,
AASB 117, AASB 133, AASB 139,
AASB 1, AASB 4, AASB 1023 &
AASB 1038]**



Australian Government

**Australian Accounting
Standards Board**

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ISSN 1036-4803

AASB 2005-10

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Australian Accounting Standard AASB 2005-10 <i>Amendments to Australian Accounting Standards</i> is set out in paragraphs 1 – 53. All the paragraphs have equal authority.
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PREFACE

Standards Amended by AASB 2005-10

This Standard makes amendments to the following Australian Accounting Standards:

1. AASB 132 *Financial Instruments: Disclosures and Presentation*;
2. AASB 101 *Presentation of Financial Statements*;
3. AASB 114 *Segment Reporting*;
4. AASB 117 *Leases*;
5. AASB 133 *Earnings per Share*;
6. AASB 139 *Financial Instruments: Recognition and Measurement*;
7. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*;
8. AASB 4 *Insurance Contracts*;
9. AASB 1023 *General Insurance Contracts*; and
10. AASB 1038 *Life Insurance Contracts*.

These amendments arise from the release in August 2005 of AASB 7 *Financial Instruments: Disclosures*, which is the Australian equivalent to IFRS 7 *Financial Instruments: Disclosures*. AASB 7 withdraws AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and supersedes paragraphs 51-95 of AASB 132. AASB 7 locates in one place all disclosures relating to financial instruments. The consequential amendments to other existing standards are identified in this amending standard.

The ability of entities to claim compliance with International Financial Reporting Standards is not affected by the amendments made by this Standard.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods beginning on or after 1 January 2007 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

Main Requirements

Under this Standard the disclosure requirements in AASB 132 are deleted. AASB 132 continues to contain the requirements for the presentation of financial instruments.

Further, the issuance of AASB 7 and the amendments to AASB 132, outlined above, necessitate additional consequential amendments to AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038.

AASB 7 requires qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.

AASB 7 replaces the disclosure requirements in AASB 132 including those on which the disclosures originally in AASB 4, AASB 1023 and AASB 1038 were based. Accordingly, the disclosure requirements in AASB 4, AASB 1023 and AASB 1038 have been amended to be consistent with AASB 7.

Amended AASB 4, AASB 1023 and AASB 1038 require the disclosure of sensitivity of market risk. Some commentators expressed concern that sensitivity of market risk would be problematic for insurance contracts at a time when there are no measurement principles for calculating the fair value of insurance liabilities. It should be noted that the disclosure in paragraph 40 of AASB 7 (duplicated in AASB 4, AASB 1023 and AASB 1038) which requires a sensitivity analysis for each type of market risk, does not require entities to calculate the fair value of insurance liabilities or change in fair value. The requirement for a sensitivity analysis applies to changes in market risk variables that have an effect on profit and loss and equity in the period being reported.

ACCOUNTING STANDARD AASB 2005-10

The Australian Accounting Standards Board makes Accounting Standard AASB 2005-10 *Amendments to Australian Accounting Standards* under section 334 of the *Corporations Act 2001*.

Dated 5 September 2005

D.G. Boymal
Chair – AASB

ACCOUNTING STANDARD AASB 2005-10

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS

Objective

1. The objective of this Standard is to make amendments to:
 - (a) AASB 132 *Financial Instruments: Disclosure and Presentation*;
 - (b) AASB 101 *Presentation of Financial Statements*;
 - (c) AASB 114 *Segment Reporting*;
 - (d) AASB 117 *Leases*;
 - (e) AASB 133 *Earnings per Share*;
 - (f) AASB 139 *Financial Instruments: Recognition and Measurement*;
 - (g) AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*; and
 - (h) AASB 4 *Insurance Contracts*;
 - (i) AASB 1023 *General Insurance Contracts*; and
 - (j) AASB 1038 *Life Insurance Contracts*;as a consequence of the release of AASB 7 *Financial Instruments: Disclosures* in August 2005.

Application

2. This Standard applies to:
 - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;
 - (b) general purpose financial reports of each other reporting entity; and
 - (c) financial reports that are, or are held out to be, general purpose financial reports.
3. This Standard applies to annual reporting periods beginning on or after 1 January 2007.
4. This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2007. An entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act may apply this Standard to such annual reporting periods when an election has been made in accordance with subsection 334(5) of the Corporations Act. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.
5. This Standard will be registered on the Federal Register of Legislative Instruments, in accordance with the *Legislative Instruments Act 2003*.

Amendments to AASB 132

6. The title is amended to AASB 132 *Financial Instruments: Presentation*.
7. Paragraph 1 is deleted and paragraphs 2 and 3 are amended to read as follows:
 2. The objective of this Standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities can be offset.

3. The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in AASB 139 *Financial Instruments: Recognition and Measurement*, and for disclosing information about them in AASB 7 *Financial Instruments: Disclosures*.
8. Paragraph Aus3.5 is deleted.
9. Paragraph 4(a) is amended to read as follows:

Scope

4. **This Standard shall be applied by all entities to all types of financial instruments except:**
 - (a) **those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with AASB 127 *Consolidated and Separate Financial Statements*, AASB 128 *Investments in Associates* or AASB 131 *Interests in Joint Ventures*. However, in some cases, AASB 127, AASB 128 or AASB 131 permits an entity to account for an interest in a subsidiary, associate or joint venture using AASB 139; in those cases, entities shall apply the disclosure requirements in AASB 127, AASB 128 or AASB 131 in addition to those in this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures;**

...

10. Paragraphs 5 and 7 are deleted.
11. The second sentence of paragraph 40 is amended to read as follows:
 40. ... In addition to the requirements of this Standard, disclosure of interest and dividends is subject to the requirements of AASB 101 and AASB 7. ...
12. The last sentence of paragraph 47 is amended to read as follows:
 47. ... When an entity has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the effect of the right on the entity's credit risk exposure is disclosed in accordance with paragraph 36 of AASB 7.

13. The last sentence of paragraph 50 is amended to read as follows:
 50. ... When financial assets and financial liabilities subject to a master netting arrangement are not offset, the effect of the arrangement on an entity's exposure to credit risk is disclosed in accordance with paragraph 36 of AASB 7.
14. Paragraphs 51-95 are deleted.
15. In the Appendix (Application Guidance), paragraphs AG24 and AG40 and the last sentence of paragraph AG39 are deleted.

Amendments to AASB 101

16. Paragraphs Aus1.9 and Aus 1.10 are added as follows:
 - Aus1.9** Notwithstanding paragraph Aus1.1(a), the application of paragraphs 124A-124C is limited to each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity.
 - Aus1.10** Notwithstanding paragraphs Aus1.1 and Aus1.9, a not-for-profit entity need not present the disclosures required by paragraphs 124A-124C.
17. Paragraph 4 is deleted.
18. Paragraph Aus14.2 is amended to read as follows:
 - Aus14.2** In some circumstances compliance with *Australian equivalents to IFRSs* by for-profit entities will not lead to compliance with IFRSs. These circumstances include, for example, when the entity is a for-profit public sector entity to which AAS 29 *Financial Reporting by Government Departments* applies and the entity has applied a requirement in that Standard that overrides the requirements in an Australian equivalent to IFRSs.
19. In paragraph 56, "AASB 132" is replaced by "AASB 7 *Financial Instruments: Disclosures*", and in paragraphs 105(d)(ii) and 124, "AASB 132" is replaced by "AASB 7".

20. The last sentence of paragraph 71(b) is amended to read as follows:

71(b) ...For example, a financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution.

21. The fourth sentence of paragraph 84 is amended to read as follows:

84. ... For example, a financial institution may amend the descriptions to provide information that is relevant to the operations of a financial institution. ...

22. A heading and paragraphs 124A-124C are added as follows:

Capital

124A An entity shall disclose information that enables users of its financial report to evaluate the entity's objectives, policies and processes for managing capital.

124B To comply with paragraph 124A, the entity discloses the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital;
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges);
- (c) any changes in (a) and (b) from the previous period;

- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject; and
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

124C An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial report user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Amendments to AASB 114

- 23. In paragraphs 27(a) and (b), 31, 32, 46 and 74, the phrase "the board of directors and [to] [the] chief executive officer" is replaced by "key management personnel".
- 24. In paragraphs 27(b), 30 and 32 the phrase "the directors and management" is replaced by "key management personnel".
- 25. The first sentence of paragraph 27 is amended to read as follows:
 - 27. **An entity's internal organisational and management structure and its system of internal financial reporting to key management personnel (e.g. the board of directors and the chief executive officer) shall normally be the basis for identifying the predominant source and nature of risks and differing rates of return facing the entity and, therefore, for determining which reporting format is primary and which is secondary, except as provided in subparagraphs (a) and (b) below: ...**

26. The third sentence of paragraph 28 is amended to read as follows:
28. ... Therefore, except in rare circumstances, an entity will report segment information in its financial report on the same basis as it reports internally to key management personnel. ...
27. The first sentence of paragraph 33 is amended to read as follows:
33. Under this Standard, most entities will identify their business and geographical segments as the organisational units for which information is reported to key management personnel, or the senior operating decision maker, which in some cases may be a group of people for the purpose of evaluating each unit's past performance and for making decisions about future allocations of resources. ...

Amendments to AASB 117

28. In paragraph 31, "AASB 132 *Financial Instruments: Disclosure and Presentation*" is replaced by "AASB 7 *Financial Instruments: Disclosures*", and in paragraphs 35, 47 and 56, "AASB 132" is replaced by "AASB 7".

Amendments to AASB 133

29. In paragraph 72, "AASB 132" is replaced by "AASB 7 *Financial Instruments: Disclosures*".

Amendments to AASB 139

30. Paragraph 1 is amended to read as follows:
1. The objective of this Standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Requirements for presenting information about financial instruments are in AASB 132 *Financial Instruments: Presentation*. Requirements for disclosing information about financial instruments are in AASB 7 *Financial Instruments: Disclosures*.

31. In paragraph 9, the definition of a financial asset or financial liability at fair value through profit or loss, the first subparagraph appearing after (b)(ii) is amended to read as follows:

9. ...

In AASB 7, paragraphs 9-11 and B4 require the entity to provide disclosures about financial assets and financial liabilities it has designated as at fair value through profit or loss, including how it has satisfied these conditions. For instruments qualifying in accordance with (ii) above, that disclosure includes a narrative description of how designation as at fair value through profit or loss is consistent with the entity's documented risk management or investment strategy.

32. In paragraph 45, "AASB 132" is replaced by "AASB 7".

33. Paragraph 48 is amended to read as follows:

48. In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, AASB 132 or AASB 7, an entity shall apply paragraphs AG69-AG82 of Appendix A.

Amendments to AASB 1

34. Paragraph 36A is amended to read as follows:

36A In its first Australian-equivalents-to-IFRSs financial report, an entity that adopts Australian equivalents to IFRSs before 1 January 2006 shall present at least one year of comparative information, but this comparative information need not comply with AASB 132, AASB 139, AASB 4, AASB 1023 or AASB 1038. An entity that chooses to present comparative information that does not comply with AASB 132, AASB 139, AASB 4, AASB 1023 or AASB 1038 in its first year of transition shall:

- (a) apply the recognition and measurement requirements of its previous GAAP in the comparative information for financial instruments within the scope of AASB 132 and AASB 139 and for insurance contracts within the scope of AASB 4, AASB 1023 and AASB 1038;
...

In the case of an entity that chooses to present comparative information that does not comply with AASB 132, AASB 139, AASB 4, AASB 1023 and AASB 1038, references to the ‘date of transition to Australian equivalents to IFRSs’ shall mean, in the case of those Standards only, the beginning of the first Australian-equivalents-to-IFRSs reporting period. Such entities are required to comply with paragraph 15(c) of AASB 101 to provide additional disclosures when compliance with the specific requirements in Australian-equivalents-to-IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.

35. After paragraph 36B, a heading and paragraph 36C are added as follows:

Exemption from the requirement to provide comparative disclosures for AASB 7

- 36C An entity that adopts Australian-equivalents-to-IFRSs before 1 January 2006 and chooses to adopt AASB 7 *Financial Instruments: Disclosures* in its first Australian-equivalents-to-IFRSs financial report need not present the comparative disclosures required by AASB 7 in that financial report.

Amendments to AASB 4

36. Paragraph 2(b) is amended to read as follows:

2 ...

- (b) financial instruments that it issues with a *discretionary participation feature* (see paragraph 35). AASB 7 *Financial Instruments: Disclosures* requires disclosure about financial instruments, including financial instruments that contain such features.

37. Paragraph 3 is amended to read as follows:

- 3 This Standard does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*), except in the transitional provisions in paragraph 45.

38. In paragraph 35 of AASB 4 *Insurance Contracts*, subparagraph (b) is amended to delete the word “and” at the end, subparagraph (c) is amended to replace the full stop at the end with “; and”, and subparagraph (d) is added as follows:

35 ...

- (d) although these contracts are financial instruments, an issuer applying paragraph 19(b) of AASB 7 to contracts with a discretionary participation feature shall disclose the total interest expense recognised in profit or loss, but need not calculate such interest expense using the effective interest method.

39. The heading and paragraphs 38 and 39 are amended to read as follows:

Nature and extent of risks arising from insurance contracts

- 38 An insurer shall disclose information that enables users of its financial report to evaluate the nature and extent of risks arising from insurance contracts.**

- 39 To comply with paragraph 38, an insurer shall disclose:

- (a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;
- (b) [Deleted by the IASB];
- (c) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:
 - (i) sensitivity to insurance risk (see paragraph 39A);
 - (ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of insured event, geographical area, or currency); and
 - (iii) actual claims compared with previous estimates (i.e. claims development). The disclosure about

claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year;

- (d) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 would require if the insurance contracts were within the scope of AASB 7. However:
 - (i) an issuer need not provide the maturity analysis required by paragraph 39(a) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the balance sheet; and
 - (ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of AASB 7. Such an insurer shall also provide the disclosures required by paragraph 41 of AASB 7; and
- (e) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

40. Paragraph 39A is added as follows:

- 39A To comply with paragraph 39(c)(i), an insurer shall disclose either (a) or (b) as follows:
 - (a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the reporting date occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to

manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of AASB 7; and

- (b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Amendments to AASB 1023

- 41. After paragraph 17.6.6 the heading and paragraphs 17.7 and 17.7.1 are amended to read as follows:

Nature and extent of risks arising from insurance contracts

17.7 An insurer shall disclose information that enables users of its financial report to evaluate the nature and extent of risks arising from insurance contracts.

17.7.1 To comply with paragraph 17.7, an insurer shall disclose:

- (a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;
- (b) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:
 - (i) sensitivity to insurance risk (see paragraph 17.7.5);
 - (ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of insured event, geographical area, or currency); and
 - (iii) actual claims compared with previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and

timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year;

- (c) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 *Financial Instruments: Disclosures* would require if the insurance contracts were within the scope of AASB 7. However:
 - (i) an issuer need not provide the maturity analysis required by paragraph 39(a) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the balance sheet; and
 - (ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of AASB 7. Such an insurer shall also provide the disclosures required by paragraph 41 of AASB 7; and
- (d) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

42. Paragraph 17.7.3 is amended to read as follows:

17.7.3 The claims development disclosure required by paragraph 17.7.1(b)(iii) only applies to classes of business where claims are not typically resolved within one year. The insurer, in disclosing claims development, ensures it is clear to the reader of the financial report, which classes of business, or which segments of the business, are covered by the disclosures and which classes of business, or which segments of the business, are not covered by the disclosures.

43. After paragraph 17.7.4, paragraph 17.7.5 is added as follows:

17.7.5 To comply with paragraph 17.7.1(b)(i), an insurer shall disclose either (a) or (b) as follows:

- (a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the reporting date occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of AASB 7; and
- (b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

44. Paragraph 17.9.1 is amended to read as follows:

17.9.1 This Standard addresses disclosure requirements in relation to general insurance contracts. Other Australian Accounting Standards may be relevant to a general insurer's financial report. In particular, the disclosure requirements in AASB 7 would normally be relevant to general insurers.

45. Paragraph 18.3 is amended to read as follows:

18.3 In applying paragraph 17.7.1(b)(iii), an entity need not disclose information about claims development that occurred earlier than five years before the end of the first annual reporting period in which it applies this Standard. Furthermore, if it is impracticable, when an entity first applies this Standard, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information that complies with this Standard, the entity shall disclose that fact.

Amendments to AASB 1038

46. Paragraph 2.1.6 is amended to read as follows:

2.1.6 A financial instrument with a discretionary participation feature, issued by a life insurer, is defined as a life insurance contract for the purposes of this Standard and in measuring the life insurance liability, issuers of such instruments would apply paragraph 8.9.

AASB 7 *Financial Instruments: Disclosures* addresses additional disclosure in relation to these financial instruments.

47. After paragraph 14.1.7 the heading and paragraphs 15.1 and 15.1.1 are amended to read as follows:

Nature and extent of risks arising from insurance contracts

15.1 An insurer shall disclose information that enables users of its financial report to evaluate the nature and extent of risks arising from insurance contracts.

15.1.1 To comply with paragraph 15.1, an insurer shall disclose:

- (a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;
- (b) information about *insurance risk* (both before and after risk mitigation by reinsurance), including information about:
 - (i) sensitivity to insurance risk (see paragraph 15.1.3);
 - (ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (e.g. type of insured event, geographical area, or currency); and
 - (iii) actual claims compared with previous estimates (i.e. claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year;
- (c) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of AASB 7 would require if the

insurance contracts were within the scope of AASB 7.
However:

- (i) an issuer need not provide the maturity analysis required by paragraph 39(a) of AASB 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the balance sheet; and
- (ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of AASB 7. Such an insurer shall also provide the disclosures required by paragraph 41 of AASB 7; and
- (d) information about exposures to market risk arising from embedded derivatives contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at fair value.

48. After paragraph 15.1.2, paragraph 15.1.3 is added as follows:

15.1.3 To comply with paragraph 15.1.1(b)(i), an insurer shall disclose either (a) or (b) as follows:

- (a) a sensitivity analysis that shows how profit or loss and equity would have been affected had changes in the relevant risk variable that were reasonably possible at the reporting date occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 41 of AASB 7; and
- (b) qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

49. Paragraph 15.1.2 is amended to read as follows:

15.1.2 The claims development disclosure required by paragraph 15.1.1(b)(iii) only applies to classes of business where claims are not typically resolved within one year. For many life insurance products this disclosure would not normally be required. Furthermore, claims development disclosure would not normally be needed for annuity contracts, for example, because each periodic payment arises, in effect, from a separate claim about which there is no uncertainty.

50. The word “and” is deleted from the end of the paragraph 17.5.5(b) and paragraph 17.5.5(c) is amended to read as follows:

17.5.5 ...

- (c) although these contracts are financial instruments, the issuer may continue to recognise the premiums for those contracts as revenue and recognise as an expense the resulting increase in the carrying amount of the liability, subject to the requirements of paragraphs 5.1 and 5.2; and

51. Paragraph 17.5.5(d) is added as follows:

17.5.5 ...

- (d) although these contracts are financial instruments, an issuer applying paragraph 19(b) of AASB 7 to contracts with a discretionary participation feature shall disclose the total interest expense recognised in profit or loss, but need not calculate such interest expense using the effective interest method.

52. Paragraph 17.13.1 is amended to read as follows:

17.13.1 This Standard addresses disclosure requirements in relation to life insurance contracts and certain disclosure requirements in relation to life investment contracts. Other Australian Accounting Standards may be relevant to a life insurer's financial report. In particular, the disclosure requirements in AASB 7 would normally be relevant to life insurers.

53. Paragraph 19.3 is amended to read as follows:

19.3 In applying paragraph 15.1.1(b)(iii), an entity need not disclose information about claims development that occurred earlier than five years before the end of the first annual

reporting period in which it applies this Standard.
Furthermore, if it is impracticable, when an entity first applies this Standard, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information that complies with this Standard, the entity shall disclose that fact.