



Technical Director – Accounting Standards
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27 September 2007

Dear Sir/ Madam

Exposure Draft 113: Proposed Amendment to Appendix C *Life Insurance Entities* of NZ IFRS 4 *Insurance Contracts* – Deferred Tax and Policyholder Liabilities

The Investment Savings and Insurance Association (ISI) appreciates the opportunity to comment on the above Exposure Draft.

ISI represents investment and life insurance companies in New Zealand. Member companies manage over NZ\$50 billion in savings and provide other financial services on behalf of more than 1,500,000 New Zealand investors and policyholders. ISI currently has 20 investment and life insurance members and 19 associate members.

We have consulted with our members and our responses to the Exposure Draft represent a summary of the views of our membership.

General Comment

We accept that the requirements of NZ IFRS 4 do not override those of NZ IAS 12 and NZ IAS 1. Consequently, any deferred tax assets or liabilities must already be separately disclosed as required by paragraph 68 of NZ IAS 1. However, whilst we understand the intention of the

proposed amendment is to require separate presentation of any deferred tax balances embedded within policy liabilities, the proposed amendment which states:

“NZ IAS 1 requires the separate disclosure of deferred tax assets and deferred tax liabilities (as defined in NZ IAS 12) as line items on the face of the balance sheet”

appears to provide no further clarification over current accounting guidance.

Whilst we understand what the FRSB is seeking to achieve, we are concerned that there will be considerable difficulty for life insurance companies in applying the proposed amendment and therefore providing meaningful information. This is exacerbated by the proposed effective date of 31 December 2007 which would require entities to not only understand and interpret the Exposure Draft but then to change reporting and information systems as appropriate, collect comparatives and understand the implications of any previous accounting treatments applied in accordance with NZ IAS 8.

In discussing this Exposure Draft it is also noted:

- preliminary discussions show there is a wide range of views on exactly what deferred tax is embedded within policy liabilities
- there is uncertainty whether the proposed amendment would introduce divergence of accounting practice between New Zealand and Australia in particular which if was the case would appear contrary to the intention of International Financial Reporting Standards
- the tax changes envisaged as a result of the review of Life Insurance by the IRD and Phase 2 of Insurance Contracts by the IASB, are likely to require any changes made as a result of this Exposure Draft to be amended again in the near future

Given the above, we do have significant reservations as to whether the additional benefit to policyholders and other users of the financial statements of the proposed amendment, is sufficient to outweigh the difficulty and costs involved.

In particular we recommend the FRSB consider carefully any submission provided by The New Zealand Society of Actuaries since they have specialist knowledge in understanding the implications of the Exposure Draft.

As a minimum, we recommend that the FRSB defer implementation of this requirement for at least 6 months to allow sufficient time for consultation with auditors and with the New Zealand Society of Actuaries to ensure that the information provided is meaningful for the public and calculated on a consistent basis across the industry. Without deferment it would be hard to envisage a consistent accounting treatment across the industry could be achieved.

Responses to questions raised by the FRSB

Our detailed responses to the questions raised by the FRSB are set out below.

Question 1**Do you agree with the proposed amendment to Appendix C of NZ IFRS 4?**

As noted above, we accept that NZ IAS 12 and NZ IAS 1 already requires separate disclosure of deferred tax balances. However we have significant concerns about the ability of entities to separate out any deferred tax balances embedded within policy liabilities in a consistent manner given the proposed effective date.

Whilst it is acknowledged that tax disclosures for life insurers can be difficult for users to interpret, improvements will only be achieved if treatments are consistency applied. With no current guidance available and significant divergence of views on how to interpret the proposed amendment, we have significant concerns as to whether users will benefit from the Exposure Draft.

Question 2**Do you consider that the proposed amendment to Appendix C of NZ IFRS 4 gives rise to any public benefit entity issues that require additional guidance in the finalised amendment of Appendix C of NZ IFRS 4?**

No comment.

Question 3**Do you believe that there should be any differential reporting concessions for qualifying entities in Appendix C of NZ IFRS 4 as a result of the proposed amendment?**

Once deferred tax accounting is applied there is no differential reporting so no concessions would apply.

Question 4**Are there any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed amendment, particularly any issues relating to:****(a) profit-oriented entities**

In addition to the tax changes envisaged as a result of the review of Life Insurance by the IRD, the implementation of the proposed amendment will be further complicated by the change in the corporate tax rate which is to take effect from 1 April 2008. As a result of these issues together with the other points raised above, we would recommend that as a minimum the FRSB consider deferring the effective date suggested in the Exposure Draft by at least 6 months to allow entities to seek guidance from auditors, the New Zealand Society of Actuaries and other relevant parties.

(b) public benefit entities

Not applicable.

(c) The Privacy Act 1993

No issues.

Question 5

Do you consider the proposed amendment to be in the best interests of the users of general purpose financial reports in New Zealand?

Given the practical difficulties for life insurance companies to determine any tax balances embedded within policy liabilities, we consider that it will be very difficult to provide consistent and reliable information to users of financial statements.

If you have any questions or require further information about this submission please contact me directly by phone on 473-8730 or by emailing vance@isi.org.nz.

Yours faithfully

Vance Arkinstall
CHIEF EXECUTIVE