

Explanatory Statement

AASB 2005-12 Amendments to Australian Accounting Standards

December 2005



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Adoption of Australian equivalents to IFRSs

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Accounting Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

In implementing the FRC's directive, the AASB is replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the Board made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

Reasons for Issuing AASB 2005-12

AASB 2005-12 is an amending Standard which makes amendments to AASB 1038 *Life Insurance Contracts* and AASB 1023 *General Insurance Contracts*. Most of the amendments to AASB 1038 are to acknowledge that friendly societies may have unallocated surplus that is in the nature of “policyholder equity”. The other amendments to AASB 1038 and amendments to AASB 1023 are to remove commentary that may be perceived as incompatible with some Australian equivalents to IFRS, in particular AASB 127 *Consolidated and Separate Financial Statements*, in relation to the fair value treatment of investments in associates and joint venture entities in the consolidated financial statements of an insurer or parent of an insurer.

Main Features of this Standard

This Standard was made by the AASB on 8 December 2005 under section 334 of the *Corporations Act 2001*.

Application Date

This Standard is applicable to annual reporting periods ending on or after 31 December 2005 with early adoption permitted for annual reporting periods that begin on or after 1 January 2005 and end before 31 December 2005.

Changes relating to friendly societies

AASB 1038 contemplates that life insurers operating in some overseas markets may have unallocated surplus that is in the nature of “policyholder equity”, because it cannot necessarily be classed as part of shareholder equity or policyholder liability. The change to AASB 1038 made by this Standard is to acknowledge that friendly societies may also have unallocated surplus that is in the nature of “policyholder equity”.

Changes relating to fair value guidance

The commentary deleted by this Standard from AASB 1023 and AASB 1038 removes a potential incompatibility with other Standards relating to the treatment of associates and joint venture entities in the consolidated financial statements of an insurer or parent of an insurer.

Consultation prior to Issuing this Standard

In November 2005 the AASB issued an Invitation to Comment including a proposal to amend AASB 1038 to acknowledge that friendly societies may have unallocated surplus that is in the nature of “policyholder equity”. The six responses received supported the proposed amendments to AASB 1038.

Comment on deleting the commentary relating associates and joint ventures was sought from the AASB Insurance Project Advisory Panel and all of those members who responded supported the proposals.

A Regulatory Impact Statement has not been prepared in connection with the revision of this Standard as the amendments do not have a direct, or substantial indirect, effect on business or restrict competition, are of a minor or machinery nature and do not substantially alter existing arrangements.