



NZ ACCOUNTING
STANDARDS
BOARD

Statutory Funds (Amendments to Appendix C of NZ IFRS 4)

Issued April 2014

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

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ISBN 978-1-927292-10-5

Amendment to Appendix C *Life Insurance Entities*

In the Introduction to Appendix C, the 'Comparison with AASB 1038' is amended. New text is underlined and deleted text is struck through.

Comparison with AASB 1038

The requirements of this Appendix and AASB 1038 are similar except that this Appendix:

- (a) ~~refers to New Zealand legislation rather than Australian legislation; does not refer to the Australian Life Insurance Act 1995. The relevant paragraphs from FRS 34 dealing with the issue have been carried forward into this Standard;~~
- (b) ~~excludes any references to APRA and APRA requirements; because New Zealand does not have a regulatory body equivalent to APRA;~~
- (c) ~~does not include reference to statutory funds as there are no statutory funds in New Zealand;~~
- (d) ~~requires investment properties backing life insurance liabilities or life investment contract liabilities to be measured at fair value in accordance with NZ IAS 40 *Investment Property*; and~~
- (e) ~~retains disclosures from FRS 34, many of which are considered necessary as there is less regulation of life insurers in New Zealand.~~

Paragraph 1.2D is inserted.

1.2D *Statutory Funds (Amendments to Appendix C of NZ IFRS 4)*, issued in April 2014, amended paragraphs 17.8, 17.10, and 18.1, deleted paragraph 17.13.2, and inserted paragraph 18.1.1. An entity shall apply those amendments for reporting periods beginning on or after 1 July 2014. Early application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Paragraph 17.8 is amended. New text is underlined and deleted text is struck through.

17.8 A life insurer shall disclose the ~~amount of equity retained as~~ solvency margin (determined in accordance with the solvency standards made under the Insurance (Prudential Supervision) Act 2010) of each life fund (as defined in the solvency standards made under the Insurance (Prudential Supervision) Act 2010) and the aggregate solvency margin for all life funds of the life insurer ~~reserves and the basis of establishing the amount.~~ A group shall disclose the solvency ~~position~~ margin of each life insurer in the group.

Paragraph 17.10(c) is amended. New text is underlined and deleted text is struck through.

17.10 The following shall be disclosed in notes:

- (a) ...
- (b) ...;
- (c) whether the amount of the solvency margin has been determined in accordance with the requirements of solvency standards made under the Insurance (Prudential Supervision) Act 2010 ~~solvency reserves disclosed in accordance with paragraph 17.8 has been determined in accordance with the standards and guidelines of the New Zealand Society of Actuaries (Inc);~~
- (d) ...; and
- (e)

Paragraph 17.13.2 is deleted. Deleted text is struck through.

17.13.2 –~~[Deleted] This Appendix requires minimum disclosures and it is likely that, in many cases, more extensive disclosures would be appropriate. For example, in relation to investment properties it may be useful to disclose separately the extent of holdings in the commercial/retail, industrial, rural and residential sectors.~~

Paragraph 18.1 is amended. New text is underlined and deleted text is struck through.

18.1 ~~For each life fund~~~~This Appendix requires disclosure of disaggregated information as between those amounts relating to investment-linked business and those relating to non-investment-linked business.~~ ~~¶~~The following ~~shall~~must be disclosed:

(a) ...

...

(c) life insurance contract~~policy~~ liabilities;

(d) life investment contract liabilities other than policy liabilities and assets or liabilities arising in respect of the management services element of life investment contracts;

(e) liabilities other than life insurance contract liabilities or life investment contract liabilities;

(~~e~~f) retained profits, showing the amount directly attributable to shareholders and other retained profits;

(~~g~~f) to the extent that amounts are recognised in profit or loss, premium revenue split between life insurance contracts and life investment contracts;

(~~h~~g) investment income~~revenue~~;

(~~i~~h) claims expense split between life insurance contracts and life investment contracts;

(~~j~~i) other operating expenses;

(~~k~~j) investment revenue paid or allocated to policyholders;

(~~l~~k) profit or loss~~operating surplus (deficit)~~ before tax; ~~and~~

(~~m~~l) profit or loss~~operating surplus (deficit)~~ after tax; ~~and~~

(n) capital payments made to funds, or distributions made from funds, including transfers of capital to or from other funds.

Paragraph 18.1.1 is inserted.

18.1.1 Disaggregated information for each life fund is useful because, under the Insurance (Prudential Supervision) Act 2010, each life insurer may have more than one life fund and, in general, the assets of each life fund are only available to meet the liabilities and expenses of that life fund.

After paragraph 20.1 the following headings and Basis for Conclusions is inserted.

Basis for Conclusions

This Basis for Conclusions – Appendix C accompanies, but is not part of, Appendix C of NZ IFRS 4.

Introduction

BCC1 This Basis for Conclusions summarises the matters the New Zealand Accounting Standards Board (NZASB) considered in reaching its conclusions on *Statutory Funds (Amendments to Appendix C of NZ IFRS 4)*.

Rationale for amendments

- BCC2 Amendments to the Insurance (Prudential Supervision) Act 2010 required life insurance entities in New Zealand to establish and maintain statutory funds to carry out their life insurance business, and the *Solvency Standard for Life Insurance Business* issued by the Reserve Bank of New Zealand required life insurers to disclose in their financial statements information about their solvency calculations and solvency margins for each life fund.
- BCC3 When Appendix C of NZ IFRS 4 was first issued it did not include any reference to statutory funds because, at that time, there was no requirement in New Zealand for life insurers to establish and maintain statutory funds. The NZASB considered it necessary to amend Appendix C of NZ IFRS 4 in order for Appendix C to be consistent with the changed legislative and regulatory environment.
- BCC4 The NZASB also noted that, in Australia, AASB 1038 *Life Insurance Contracts* requires disclosure of a life insurer's regulatory capital position by fund, as well as disaggregated information by fund. The NZASB considered that, where possible, alignment with the Australian requirements would be beneficial.

Rationale for disclosures

- BCC5 Prior to *Statutory Funds (Amendments to Appendix C of NZ IFRS 4)*, entities were required to distinguish between amounts relating to investment linked business and amounts relating to non-investment linked business. Given the changed legislative and regulatory environment, the NZASB considered that this level of information was not sufficient to meet user needs. In order to meet user needs, the NZASB considered that entities should disclose disaggregated information for each life fund.

Application of judgement

- BCC6 Although disaggregated information shall be disclosed for each life fund, in order to meet user needs, the NZASB noted that disclosure requirements apply only to information that is material, as set out in NZ IAS 1 *Presentation of Financial Statements*. Therefore, the NZASB considered that judgement should be applied, and materiality considered, in determining whether disaggregated information should be disclosed for each and every life fund, or whether some information should be aggregated.