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Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**Request for comment on IASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers***

Dear David,

Please find attached the AMP Limited (AMP) response to the Discussion Paper - Preliminary Views on Insurance Contracts issued by the International Accounting Standards Board (IASB) in December 2008.

We have not provided responses to the individual questions in the request for comment but have highlighted what we consider the major issues, from an AMP perspective, below.

**Scope of the new standard**

In Australia, contracts issued by a registered life insurance entity are split into two categories: those that transfer significant insurance risk (*life insurance contracts*); and those that do not (*life investment contracts* or *investment contracts*.)

*Life insurance*

Life insurance contracts are in the scope of IFRS / AASB 4 *Insurance Contracts* and are accounted for under the local 'margin on services' (MoS) methodology of AASB 1038 *Life Insurance Contracts*. Such contracts are covered by the ongoing International Accounting Standards Board (IASB) Insurance Project. Whilst precedents established as a result of this consultation on revenue recognition may have some bearing on the Insurance Project (for example, the proposal to initially measure the performance obligation at the transaction price) AMP believe that the development of a workable, decision-useful insurance standard should not be constrained by any conclusions made as part of the Customer Contract Revenue standard.

*Life investment contracts*

AASB 1038 states that some life investment contracts involve both the recognition of a financial instrument and the provision of investment management services. Contractual financial assets/liabilities are recognised by reference to IAS 39 / AASB 139 but the investment management services element, including associated acquisition costs, are recognised by reference to the guidance notes of IAS 18 / AASB 118 *Revenue*.

AMP agree with the statement in paragraph S11(a) of the discussion paper that applying the proposed revenue model to financial instruments would not provide decision-useful information.

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### **Scope of the new standard (continued)**

Depending on the relative timing of the introduction of the new Customer Contract Revenue and Insurance Contracts standards, the AASB would need to consider updating AASB 1038 to replace references to the Guidance Notes of AASB 118.

In addition, the IASB will need to consider extending the scope of IAS 39 to include measurement requirements for fee revenue / income streams arising from financial instruments currently accounted for using these Guidance Notes to IAS 18, if these are to be excluded from the new Customer Contract Revenue standard.

In the absence of such updates, AMP is concerned that a void in guidance, particularly in respect of the individual types of fee income discussed in more detail below, would lead to a lack of consistency across local and international markets.

### **Origination fees**

As discussed above, AASB 1038 currently requires revenue arising from investment contracts issued by life insurers to be classified as investment management fees and recognised as services are provided.

A large proportion of the investment contracts issued by AMP, including the flagship Flexible Lifetime Super and Flexible Lifetime Investments products, feature upfront fees charged to customers that are closely aligned to the associated incremental acquisition costs (i.e. commissions paid to financial planners).

The current AMP accounting policy, implemented on transition to AIFRS, is to recognise both the fee revenue and acquisition costs in full at inception of the contract. This is because initial fees are not reimbursed if the policy is surrendered immediately, so no further 'service' to the customer is required by AMP to receive this income. In addition, AMP's remuneration for managing policyholder investments on these products is earned via monthly 'assets under management' (AUM) fees. The income therefore genuinely represents a pass through of the advice-based commission paid to financial planners rather than fees for managing policyholder investments.

As already discussed, it is not clear where guidance on the recognition of such revenue would sit if IAS 18 / AASB 118 were to be replaced and income from financial instruments excluded. It is noted that the discussion paper recommends the immediate recognition of acquisition costs but the treatment of origination fees is unclear. Under the proposals the relative stand-alone selling prices of all performance obligations would need to be determined. These obligations would then be measured based on their relative share of the transaction price. Firstly, it is not clear that services on origination would satisfy the definition of a performance obligation (an explicit or implicit 'enforceable promise'). Secondly, the measurement of that obligation may not be the same as the amount currently recognised on inception.

Whilst AMP are aware that the 'matching principle' (i.e. like treatment of revenue and related expense when there is a direct link between the two) is not an integral part of the IASB Framework, any policy that resulted in a mismatch between the treatment of revenue and the related expense in respect of the origination of such contracts would add unnecessary profit volatility and result in a lack of decision-useful information in the financial report.

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### **Origination fees (continued)**

AMP strongly recommends that any update to AIFRS allow the initial recognition of fees, where no ongoing servicing obligation exists, and the recognition of acquisition costs as they are incurred.

### **Initial and trail commission**

The AMP Group also contains a number of Financial Planning Dealer Groups; businesses that provide technical support and infrastructure for financial planners. These entities are partly remunerated by taking a 'dealer cut' on initial and ongoing (trail) commissions paid by product manufacturers (including AMP) to financial planners; i.e. they act as agent rather than principal in these transactions.

Funds are placed with product manufacturers by clients of the financial planners. The product manufacturers then pay a fee back to the Dealer Group as commission. Part of this commission is then forwarded onto the financial planners as their commission on the sale. These amounts vary depending on the agreement with the financial planning firm.

The issue of the timing of recognition of commission revenue and the related commission expense also applies to the Dealer Groups. It is currently considered that these commissions also represent a genuine pass through of revenue to the financial planner for provision of advice / origination of the financial instrument and ongoing servicing of the client - so it is AMP's policy to recognise both the income and expense on an incurred basis.

The proposals do not deal with the issue of an agency relationship. Current revenue recognition is on the basis of risk and rewards, whereas the proposed model is based on control. However, it is not clear from the discussion paper how such arrangements would operate under the proposed model. Significant issues that would require clarification e.g.:

- Who is 'the customer' of the Dealer Group, the product manufacturer (for providing a distribution channel for its financial products and who pays commissions to the Dealer Group) or the financial planner (for providing a support network and infrastructure through which they can perform their services to clients)? Alternatively, is it the end client who places funds with AMP, through the financial planner?
- Is the revenue the 'net' dealer cut or is there separate revenue from the product manufacturer and expense to the planner? That is, is revenue recognised on a gross basis with an expense to the planner or is it simply shown on a net basis. The discussion paper presumes that revenue measurement is the amount to be received, but it does not deal with situations where there is an obligation to pass some or all of that onto a third party at some point in the future.
- Are initial commissions compensation for satisfaction of a different obligation to trail commissions or are all payments made against one obligation?
- How would the satisfaction of the obligation be measured?

All of the above would contribute to the over-complication of a relatively straightforward arrangement. AMP recommends that initial and trail commissions earned by Dealer Groups be excluded from the Customer Contract Revenue standard.

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### **Assets under management fees**

It is also unclear how the proposed changes would affect the ongoing AUM fees charged to investment contract holders.

AMP's current accounting policy is to recognise AUM fees as revenue when they are deducted from the policyholder account i.e. a reduction in the liability to the investment contract holder. As these are charged on a regular monthly basis, this approximates to 'as the investment management service is provided'.

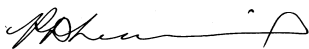
Any change that resulted in a significant disconnect in the recognition of the revenue and the deduction of fees from the policyholder's account balance would result in a counter-intuitive emergence of profit on these contracts.

AMP recommends that any changes to AIFRS allow the continued recognition of AUM fees on investment contracts on a systematic basis over the term of the policy.

### **Contact details**

AMP would welcome the opportunity to discuss its views with you or to answer any questions you may have. Please do not hesitate to contact myself or Gareth Mitchell (on +61 2 9257 3188 or [Gareth\\_Mitchell@amp.com.au](mailto:Gareth_Mitchell@amp.com.au)) if you have any queries in respect of our response.

Yours sincerely



Paul Leaming  
Chief Financial Officer  
AMP Limited