

# Summary of Comment Letters on IASB Discussion Paper

*Preliminary Views on Insurance Contracts*

**Completed by Ernst & Young LLP for the Consortium**

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# Background and Executive Summary

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# Background

The Consortium, a group of industry associations/trade groups, engaged Ernst & Young (EY) to review and summarize the comment letters submitted to the International Accounting Standards Board (IASB) in response to its Discussion Paper *Preliminary Views on Insurance Contracts* (DP).

# Consortium Members

- Consortium members include the following organizations:
  - American Council of Life Insurers (ACLI)
  - American Insurance Association (AIA)
  - CFO Forum
  - European Insurance and Reinsurance Federation (CEA)
  - Group of North American Insurance Enterprises, Inc. (GNAIE)
  - Life Insurance Association of Japan (LIAJ)
  - National Association of Mutual Insurance Companies (NAMIC)
  - Property Casualty Insurers Association of America (PCI)
  - Reinsurance Association of America (RAA)

# Survey Objectives

- The purpose of the review was to:
  - Summarize respondents' answers to the DP's questions.
  - Summarize respondents' views on certain questions from the DP and other issues not directly asked about in the DP, e.g., 'How should the IASB proceed with the insurance project given its dependency on other IASB projects?'.
    - Attempt to gain an understanding of the various rationales for differing responses.
    - Gauge the level of acceptance of the IASB's preliminary views.

# Measurement Approach

- The respondents broadly agree with an approach to measurement for life insurance with three components, similar to the Building Blocks:
  - a current measurement of future, unbiased estimates of cash flows
  - discounting for the time value of money
  - a margin
- Many respondents favor a single model for all insurance products, but there was also a significant number of non-life focused respondents who support a separate model for non-life insurance.

# Building Blocks

- Respondents
  - generally favor use of entity-specific cash flows.
  - do not all agree with a requirement for using probability-weighted cash flows, except as needed to recognize optionality in contracts.
  - strongly disagree with constraints on cash flows or on reflecting policyholder behavior.
  - have differing views on calibrating margins to premiums and request clarification on the objectives and intent of margins.
  - generally do not want to recognize profit immediately.
  - have differing views on discount rates, generally supporting either market rates or earned rates.

# Further Summary Points

- Respondents generally
  - do not agree with unbundling.
  - do not agree with reflecting credit characteristics of liabilities.
  - want to avoid accounting mismatches.
  - want consistent accounting treatment for investment contracts.
  - consider the topics of presentation and disclosure and of measurement as critical to each other.

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# General Observations

- Respondents believe accounting for insurance should reflect the economics of the business.
- The comment letters show there is little support for current exit value (CEV) without potentially substantial modification.
- Many respondents do not agree that the transfer value concept is appropriate for valuing insurance liabilities.

# Relationship to Other Standards

- Respondents express concern that insurance contracts may not fit within existing IFRS guidance or that significant advances are needed in the conceptual framework and other projects, particularly revenue recognition and measurement of liabilities, to conclude on appropriate insurance contract accounting.
- A limited number of respondents express the need for input from non-insurance entities as this standard appears to be introducing significant changes that could impact other industries materially.

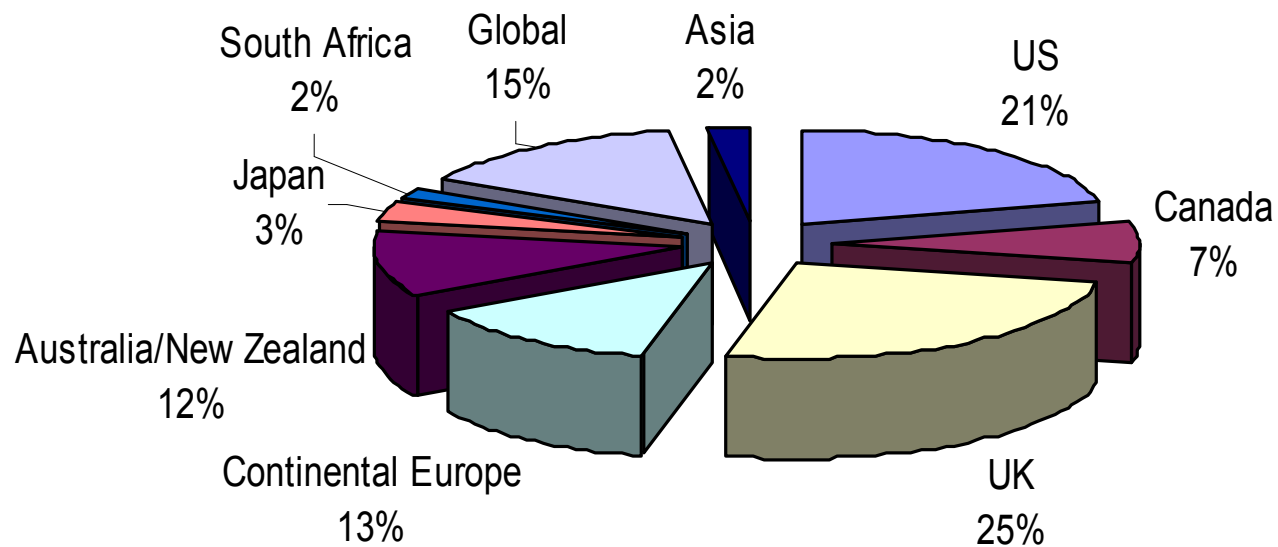


# Review Process

# Respondents

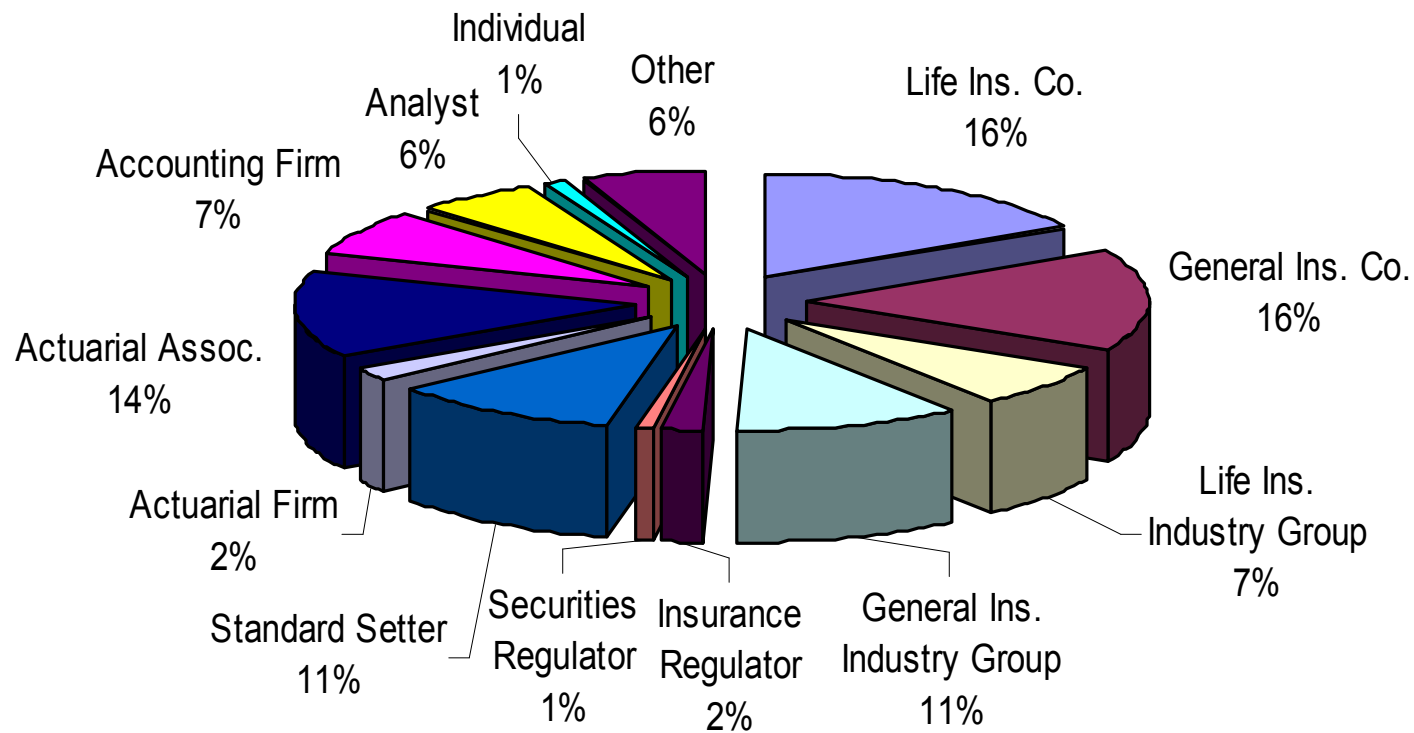
- As of January 24, 2008, 158 letters had been posted to the IASB's website.
- Responses reflect consideration of the issues presented by the IASB, typically running from five to 50 pages.
- The summary of responses considered the respondents' home country/region and the type of respondent, e.g., insurers, accounting firms, industry groups, accounting associations, professional associations, country-based accounting standards boards, analysts, and individuals.

# Respondents by Region



Note: This slide represents the distribution of the 94 letters included in this survey.

# Respondents by Type



Note: This slide represents the distribution of the 94 letters included in this survey.

# Summarizing Respondents' Views

- Responses were submitted by a higher number of industry groups, representing multiple individual insurance companies, than individually by preparer entities or users.
- Because many responses represent the views of multiple entities, tabulations of responses to specific questions are less useful as an indicator of industry-wide views. Due to the difficulty in weighting the responses from industry group letters against individual entities, tabular summaries of responses are seldom presented herein.
- When numbers of responses are presented or when views are characterized with descriptions such as 'most', 'few', etc., the frame of reference is to the 94 letters reviewed in preparing this summary, with no weighting of letters to capture the size of the responding group's constituency.
- Responses were complex and often required interpretation; it is possible the summary may not always reflect the respondents' intent.

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# How the Summary was Prepared

- A total of 94 comment letters were read and analyzed in detail.
- Letters not reviewed in detail principally consisted of responses from regions already well represented in the analysis (geographically and in content) and responses that were less comprehensive in the scope of their remarks.

# Scope of Review and Summary

- Except for the question related to whether recognition or derecognition should be as in IAS 39, responses were summarized for all questions in the DP, as well as for certain issues that were not directly asked about in the DP.
- Comments from the letters were captured so that the rationale for responses could be analyzed; we also categorized responses and response counts, although, as noted above, the usefulness of response count information is questionable.
- In the interest of keeping a focus on the topics most critical to the development of an insurance standard, this report concentrates on comments about the core topics relating to the Measurement Attribute, the Building Blocks, Profit at Issue, and the Relationship to other Projects.
- This report does not summarize comments on other issues that are less critical to the measurement model, such as recognition/derecognition.

# How the Survey Results are Presented

- Respondents' use of terminology, names, and labels for alternative models and definitions for methods and concepts was inconsistent, requiring interpretation of the intent of many responses.
- Key terms used, such as current exit value (CEV) and value in settlement (ViS), are defined herein to clarify how related findings are presented.
- This analysis presents an assessment of the principal thrust of the comments and the basis for respondents' positions and conclusions.
- This report summarizes the range of views expressed and the relative level of respondents' support for each view. This report is not simply a 'tally of votes' or the summary of an opinion poll.
- When possible, we have noted concentrations of similar views by region or type of responder.

# Measurement Attribute

This section summarizes comments about the measurement attribute, namely:

- Definitions and Characteristics of CEV and ViS

- Views on the Measurement Attribute

- Support for ViS

- Support for and concerns about CEV

- Alternatives to CEV or ViS

# Definition – Current Exit Value (CEV)

- CEV is defined in paragraph 93 of the DP:
  - *“In the Board’s preliminary view, a measurement using the three building blocks represents faithfully an attribute of an insurance liability, and an informative and concise name for that measurement attribute is ‘current exit value’. Current exit value can be defined as the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.”*
- CEV is characterized by the following Building Blocks:
  - expected cash flows that are estimated using market-based assumptions to the greatest extent possible, considering all available data both internal and external, and excluding entity-specific cash flows
  - current market rates for discounting
  - Market-based risk (and service) margins, estimated by assessing how much market participants would demand as compensation for bearing risk (and for providing services)

# Definition - Value in Settlement (ViS)

- ViS or similar terminology is used in this presentation to mean:
  - A measurement that reflects that contracts are not likely to be transferred, but paid or settled by the company in the future.
- ViS is characterized by the following Building Blocks:
  - expected cash flows anticipated in the normal course of managing and settling contracts over time that are estimated using entity-specific assumptions,
  - time value of money, and
  - margins.
- Respondents who favored ViS did not necessarily agree on approaches to margins and discounting.
- This definition differs from the concept of settlement being used in the IASB's Fair Value Measurement project. With ViS, the emphasis is on ultimate settlement; it is assumed that the liability continues to exist after the measurement date.

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# Views on the Measurement Attribute

- When asked if they agreed that CEV as defined in the DP should be the measurement attribute for insurance contracts, the vast majority raised significant concerns with the IASB proposals.
- Respondents expressed a range of views on the conceptual and practical issues related to the measurement attribute, suggesting modifications to CEV, potentially significant, or alternative measurement attributes.

# Support for ViS

- A majority of the letters favor a measurement model with characteristics of what is described in this presentation as ViS, principally the use of entity-specific expected cash flows.
- Support for this kind of model came from:
  - Australia Accounting Assoc.
  - Big 4 accounting firms
  - Board for Actuarial Standards
  - CFO Forum/ CEA
  - German ASB
  - GNAIE
  - Certain U.S.-based trade bodies
  - Towers Perrin
  - UK ASB
  - UK Accounting Association
  - UK Actuarial Profession

# Rationale for ViS

- Respondents who favor ViS over CEV see it as conceptually more appropriate.

*“We believe that the use of values based upon the premise that the liabilities will be transferred to a third party is flawed in circumstances where this form of settlement is extremely unlikely to occur in practice. We firmly believe that the appropriate basis of measurement should reflect the manner in which the reporting entity expects to settle the liabilities.” (pp.1-2)*

Hundred Group of Finance Directors

*“We do not believe the preliminary views have made the case for its promotion of a change to using market based assumptions over the settlement approach that is widely used in insurance.” (p.28, appendix)*

The UK Actuarial Profession

# Support for CEV

- A minority of letters indicate that they support CEV, as defined herein; although many qualified their responses because there are few market-observable transactions.

- CEV support came from:

Canadian Institute of Actuaries

Japanese General Insurance Assoc.

CEIOPS

Korean ASB

Fitch Ratings

Hong Kong Institute of CPAs

ISDA

New Zealand Institute of CAs

Insurance Accounting Task

Force of the Canadian Institute of  
Chartered Accountants (IATF)

# CEV may be Based on Settlement

- Some respondents observed that an exit price may be based on the expectation that the transferee will settle the contracts, making little distinction conceptually or practically, between CEV or ViS.

*“The IAIS believes that the notion of transfer would be strongly influenced by the settlement obligations that the transferee would undertake upon acquisition. In other words, any transfer would need to be made to an entity capable of accepting the transfer, which, in the case of a regulated industry like insurance, implies that the transferee would also need to be regulated and capable of settling its obligations to the claimant/beneficiary in accordance with the original insurance contracts. This implies that the exit value would, in any case, be the expected present value (ie appropriately adjusted for the time value of money) of the ultimate settlement cash flows, including the appropriate margin for uncertainty.” (Paragraph 75)*

International Association of Insurance Supervisors

# CEV – Conceptual Agreement

- Supporters express conceptual agreement with CEV:

*“IATF agrees ... that the measurement attribute for insurance liabilities should be the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity...”, also noting that, “Under Canadian GAAP, the building block technique has been a practical approach to applying this attribute.”*  
(p.9)

Insurance Accounting Task Force of the Canadian Institute of Chartered Accountants (IATF),

- The IATF cites comparability among insurers and consistency with fair value measurement of other financial instruments as reasons for supporting CEV.
- Respondents who say they agree with CEV may want to move away from the ‘market’ concept in practice, as seen in the following slides.

# CEV – Redefined

- Some respondents that indicate support for CEV appear to be redefining CEV to include entity-specific assumptions.
  - Current exit value is an appropriate “*starting point*” but “*due to a lack of market observable information... a significant portion of both cash flows and estimates will primarily be based on entity-specific assumptions.*” (p.4, Appendix A)  
  
American Institute of Certified Public Accountants (AICPA) – Accounting Standards Executive Committee and Insurance Expert Panel
- The majority of respondents support use of entity-specific cash flows, regardless of whether they favor CEV or another measurement attribute.

# CEV – Determining Market Assumptions

- Various concerns were expressed by the respondents on the use of assumptions from “hypothetical” transfers:
  - How is a hypothetical purchaser defined? Guidance is needed in order to properly establish cash flow and margin assumptions.
  - Can CEV, which imposes limitations on cash flows, truly represent what a hypothetical purchaser would consider?
  - Hypothetical market assumptions are not favored over entity-specific assumptions due to the lack of actual market-observable transactions on which to base the hypothetical assumptions.

# A Conceptual Problem

- Some agree with the CEV concept, but believe that the approach suggested in the DP to implement CEV or ViS is compromised by the constraints placed on recognition of cash flows.

*“The measurement attribute actually described by the DP is: “the amount the insurer would expect to pay...to transfer the assets and liabilities arising from the remaining contractual rights and obligations ...” (p. 29, appendix)*

The Australian Accounting Standards Board (AASB)

- The AASB cites the limitations on recognizing liabilities for dividends that are not constructive obligations as an example of how the measurement attribute in the DP differs from CEV. The AASB favors CEV even though it is “arguably not consistent with the definitions of assets and liabilities in the IASB Framework”.
- This conceptual problem with the measurement attribute relates to the proper inclusion or exclusion of certain cash flows, such as future premiums or dividends. This is reflected on later slides reflecting the comments on the Building Blocks.

# Alternatives to CEV or ViS – Measurement of Non-Life Liabilities

- Some respondents offered alternative measurement attributes.
- A significant number of non-life focused respondents (Lloyd's, GNAIE, International Underwriting Assoc., and U.S. Non-Life Insurers) are among those who favor retaining existing accounting for non-life liabilities when cash flows cannot be reliably determined:
  - unearned premiums for pre-claims liabilities and best estimate for claims liabilities
  - no discounting when the timing of payments is not reliably estimated
  - no margins for claims
- The respondents do not label their proposed measurement attribute, but believe the DP offers no improvement over existing accounting for non-life contracts and does not consider the fundamental differences between life and non-life insurance contracts.

# Single Measurement Model

- Although not a specific question, some respondents comment on whether a single model is essential or achievable:

- Certain non-life insurers and non-life industry groups in the U.S., Bermuda, London, Australia, and South Africa noted the difficulty of applying one measurement model to both life and non-life insurance contracts.

*“....a single model, as expressed in the DP, does not consider the economic differences that exist for the various types of insurance contracts, for example short duration health contracts versus long-duration life insurance contracts. A single model should not be the Board’s primary objective.” (p.2, cover letter)*

American Council of Life Insurers

- Standard & Poor’s notes that a single model may not work for the most unpredictable classes of business’ liabilities; however, they “...believe that many non-life classes are amenable to the building block approach....” p.2
- Some that did not specifically comment on this matter have supported a single model in other forums (e.g., CFO Forum/CEA) or may not have explicitly commented as there was no specific question on this topic in the DP.

# Alternatives to CEV and ViS Value – Approaches to Entry Value

- Northwestern Mutual, AMI Insurance Ltd., and the Association of Certified Chartered Accountants favor measuring liabilities as the amount that an insurer would charge a policyholder on the measurement date for entering into a contract with the same remaining rights and obligations as an existing contract.
- This is one of the approaches to entry value mentioned in the DP; namely, the one that is based on the insurer's own current pricing methodology.

# Building Blocks

This section focuses on the Building Blocks:

- Relationship to the measurement attribute

- Cash flows

- Margins

- Discount rates

# Building Blocks and Measurement Attribute

- Some respondents comment on the relationship between the Building Blocks and the measurement attribute.

*“...we consider the basic building blocks are the means to measure the accounting attribute rather than being the attribute itself. .... Overall, we support a prospective measurement model for cash flows where relevant prices cannot be observed...” (pp.5&6, appendix)*

International Actuarial Association

# Building Blocks - Cash Flows

- Respondents generally believe that all expected cash flows resulting from the contracts should be considered. Following are comments on:
  - Probability Weighting
  - Policyholder Behavior
  - Future Premiums
  - Future Dividends on Discretionary Contracts
  - Expenses

# Probability-Weighted Cash Flows

- Some (including significant support from Canada, as well as support from actuarial groups, standard setters, industry associations, etc.) disagree with the requirement that projected cash flows necessarily be probability-weighted.

*“...the following should also be accepted as other probability-weighted methods, when the effects of embedded options would not be regarded as significant.*

- *A method of allocating discrete probabilities to certain events (such as increase, leveling-off, or decrease in interest rates; the improvement and deterioration of mortality rate; bankruptcy of an insurer) or*
- *A method of developing the most credible scenario for each assumption [a deterministic method]” (p.15)*

Life Insurance Association of Japan

- This comment does not express an objection to the principle of considering a range of outcomes. Rather, as a practical matter, companies should not be required to prepare stochastic calculations when the product dynamics do not necessitate it.

# Policyholder Behavior - Considered

- The vast majority of respondents favor reflecting policyholder behavior and all expected future cash flows.

*“... the measurement of current exit value of insurance liabilities should reflect all expected cash flows, including the full impact of beneficial policyholder behaviour.” (pp.6&7, appendix)*

Manufacturers Life Insurance Company

- Most suggest that beneficial policyholder behavior should reduce the insurance liability.

*“There should not be a separate customer relationship asset. ... [This] is consistent with how liabilities are valued for transfer of business between entities....” (pp.6&7, appendix)*

Manufacturers Life Insurance Company

- Most respondents believe that constraints on inclusion of **future** cash flows do not reflect the economics of the business relationship with the policyholder.

# Whole Contract

- Nearly 90% of respondents support using all expected future cash flows that are realistically expected or have commercial substance.
- They do not agree with the concept of separating cash flows for consideration of whether they qualify for recognition as assets or liabilities under the IASB's Framework. Instead, they suggest recognition of all cash flows arising from the contract as a whole.
- This topic relates most specifically to future premiums and future dividends.

# Future Premiums

- Respondents overwhelmingly believe that future premiums on recurring premium products should be considered in projected future cash flows.

*“We consider the inclusion of future premiums for existing contracts an integral part of the proposed measurement model as these premiums represent expected cash inflows from the contracts held by the insurer.”  
(Section 2.2, cover letter)*

Conseil National de la Comptabilité

- Most respondents disagree with the use of the ‘guaranteed insurability’ test as the boundary definition for inclusion of future premiums.
- Some respondents pointed to situations where the ‘guaranteed insurability’ test was too restrictive or would not work. These include:
  - Policies which allow policyholders to take premium holidays (e.g., universal life, deferred annuities, and other life and savings contracts) without a loss of coverage.
  - Pension policies currently accounted for on a future premiums-basis, which would not meet the guaranteed insurability test in the accumulation phase.
  - Health insurance contracts currently accounted for on a single-year basis. Guaranteed insurability would require future premiums to be accounted for. (This was mentioned in a minority of letters, primarily from Australian respondents.)

# Future Dividends on Discretionary Contracts

- Most respondents favor including expected payments of future dividends, interest credits on investment contracts, and dividends on participating contracts, but some did not see the need for consistency with the concept of legal or constructive obligations as established in IAS 37.
- Respondents state that liabilities for discretionary contracts should:
  - include expected future dividends,
  - reflect all cash flows that would be considered in an exit value, or
  - realistically reflect expected cash flows in settlement.

# Expenses

- Respondents generally agree that cash flows should include expenses (such as administrative costs) but recommend the use of entity-specific information.

*“...we believe it would be appropriate for the insurer to use entity-specific assumptions as a starting point and then test these assumptions against the market to see if they are consistent.” (p.3)*

*“We accept that there may be some value in recognizing the deviation in the insurer’s expense experience relative to the market over time; however we have a concern that an inefficient insurer could present a reduced liability that would not reflect the true cost...” (p.4)*

[Joint Response] Actuarial Society of South Africa (ASSA) Life Assurance Committee and South African Institute of Chartered Accountants (SAICA) Long-term Insurance Project Group

# Margins – Clarification Sought

- Most respondents ask for clarification regarding the purpose or objective of margins.

*“The guidance issued on risk margins suggests a number of very different approaches will be considered acceptable. In our view, there is a danger that permitting such a wide range of approaches will fail to achieve the objective of comparability of reporting. We therefore suggest that the IASB provide more definitive guidance regarding the objectives and characteristics of an appropriate method for determining risk margins.” (p.3)*

Sun Life Financial

# Service Margins

- Nearly all respondents express uncertainty about the intent of, or need for, service margins and their relationship to risk margins.

The CIA believes *“it would be helpful for the IASB to clarify the concept of service margins. ....service margins would appear to be redundant if the current estimate includes all contractual cash flows (including those related to services provided under the contract) and the risk margin provides for the associated risk. ... More definitive guidance is needed.”* (p.5)

Canadian Institute of Actuaries

# Discount Rates – Market Rates

- Respondents generally agreed with the principle of discounting, with the exception of certain non-life entities and non-life industry groups.
- Those who agreed with the principle of discounting nonetheless had a number of comments on the ambiguity in the guidance.

*“...we believe that it is necessary to make clear ... what interest rate should be used as the current market discount rate. ..., there would be room for various interpretations, given that there are no financial instruments that match completely with insurance liabilities, and the descriptions in [the DP] are too abstract.” (pp. 1&2)*

Japanese Institute of Certified Public Accountants

# Discount Rates - Portfolio Yields

- Those who supported discounting generally favored the use of market yields; however, certain respondents, concentrated in North American life insurers, believe discount rates should reflect insurers expected investment portfolio yields.

*“...for many liabilities, the value of the benefits paid depends directly on the investment return earned on the assets supporting the liability. In those situations, which include most life and annuity products currently being sold, other than strictly non-participating guaranteed benefit coverages, the discount rate should be consistent with the estimates of future investment returns used to project the liability for each scenario. Otherwise, non-economic gains or losses will be created.” (p.5, appendix)*

American Academy of Actuaries

# Calibration and Profit or Loss at Issue

This section presents views on:

Calibration to premium

Profit at issue

Loss at issue

# Calibration of Margins

- Approximately half of respondents do not believe that premiums should have greater status than other evidence when calibrating margins. Insurers from Canada, Australia, and Europe hold this view as well as the rating agencies, several accounting firms, and a few regulators.
- Approximately 20% want to calibrate margins to premium. Respondents from the U.S. and non-life insurers were heavily represented in this category.
- Approximately 10% want calibration to premium as the rebuttable presumption.
- Some respondents do not give an answer, stating that the topic could not be addressed until the measurement attribute had been settled.

# Premium has no Greater Status

- An argument that calibration solely to premium is inappropriate:

*“We agree strongly with approach (c) [no calibration to premium, but significant profit or loss calls the calibration of margins into question], since it is clearly most consistent with the underlying principles of current exit value, which we support. In particular, it provides the most relevant and reliable information to users because it requires that all available information be utilized.” (p.6)*

Canadian Institute of Actuaries

# Possible Significant Profits

Many respondents believe that significant profits at issue could occur, in contrast to the IASB's belief that Day 1 profits would be small. Most of these respondents favored profit deferral.

*“The residual difference between the premium and the insurance liability represents the initial profit expected to be generated by the contract over its lifetime. We believe that this initial profit margin is more significant than that envisaged by the IASB in the Discussion Paper. The size of the initial profit margin is demonstrable in market transactions and in published market consistent embedded value figures.” (p.3)*

Allianz

# Deferred Profit

- Some respondents argue for a separate deferred profit liability:

*“We believe that the risk margin should be calculated independently..... the initial profit margins should be presented [separately] in the liability section of the balance sheet and recognised as income in line with release from risk.”*  
(p.5, Appendix A)

CFO Forum/ CEA

- This approach is favored to make a clear distinction between contractual liabilities and an element of profit that is available for regulatory solvency capital purposes.

# Calibrating Margins to Premium

- Respondents favoring calibration to premium often mention that they believe that the insurer has not earned a profit at inception or that they are concerned about the reliability of setting market-based margins.

*“ AIA believes that an insurer should calibrate the risk margin directly to the actual premium charged (less acquisition costs) .....because the actual premium is an observed market transaction.” (p.11)*

American Insurance Association

# Premium as the Best Evidence

- Profit at issue should be zero (except in rare circumstances) if margins are calibrated to premiums as a rebuttable presumption:

*“...we believe that the objective should be to make the best use of the available evidence in measuring the liabilities and at initial recognition, in most cases, the actual transaction price provides the only verifiable evidence....We also note that there might be cases where an insurer sells the same insurance contract through two different sales channels, either at differing premiums or at the same premium but one bearing higher acquisition costs than the other (e.g., through an agent to whom commission is paid, and directly). The insurer would therefore arrive at different values for identical liabilities; in such cases, the entity would need to balance the two pieces of evidence.” (p.6)*

Accounting Standards Board (UK)

# Loss at Issue

- Most respondents, regardless of their position on profits at issue, believe that a loss should be recognized at issue for contracts that are inherently unprofitable or onerous.

*“Of course, there may be the situation where business is written at an expected loss and this loss should be recognized at once.” (p.5)*

Lloyd's

# Relating Calibration to Profit at Issue

Approach	Profit at Issue
Calibrate margin to premiums	No profit
Premium as best evidence	Most often no profit
Premium is no better than other evidence	Most in this category believe that a profit at inception should not be recognized immediately

# Other Topics

This section presents views on:

Credit characteristics

Unbundling

Presentation and disclosures

Accounting mismatches

Premiums as revenue

Acquisition expenses

# Credit Characteristics

- Nearly all respondents state that credit characteristics should not be a consideration in measuring insurance liabilities (although some noted that it may be implicit in calibrating margins). Respondents stated that:
  - adjusting for credit characteristics is not consistent with the concept of ViS.
  - an insurer is not able to reflect credit characteristics in a transfer of obligations because the transferee would not be willing to take over a liability for an amount that is lower than the expected obligation.

# Unbundling

- Almost all respondents are opposed to the IASB's requirement of unbundling. They generally do not believe it adds meaningful information.
- Some agree with unbundling only when the deposit or service component could be clearly identified and reliably separated.

*“...we do not believe that deposit/service components should be artificially separated when insurers manage these contracts as a whole. This will lead to significant additional cost and complication for contracts and potentially less relevant and reliable information to the users of the financial statements.”*

*(p.9)*

British Bankers Association

# Presentation and Disclosures

- Respondents primarily express general comments about presentation, including:
  - conflicting opinions on whether the measurement attribute should be finalized first or measurement and presentation should be addressed together.
  - suggesting ways that profit and loss or notes can help users understand performance; e.g., profits by source and variance in experience from assumptions.

# Accounting Mismatches

- While not necessarily recommending changes in the measurement of assets, respondents express concern about the possibility of mismatches if measurement of liabilities does not have similar dynamics to those for assets.
- A few respondents stress the need for an insurer to have an option to use OCI to post movements on insurance liabilities to match those on available-for-sale investments.
- Respondents express mixed views on whether the IASB should make changes in order to eliminate accounting mismatches that arise for own-use properties, internally generated goodwill, and own-shares, backing linked contracts. These include:
  - acknowledging the issue and not commenting further, or
  - supporting some of the possible solutions listed in the DP without offering better accounting rationale than found in the DP.

# Premiums as Revenue

- Over half of respondents favor showing premiums as revenue in the income statement.
  - Respondents generally favor premiums as revenue for non-life contracts.
  - For life contracts, comments are mixed, including:
    - fees and premiums for the service component as revenues.
    - premiums as deposits as insurance is predominantly financial.

# Acquisition Expenses

- Nearly all respondents believe acquisition costs should be expensed when incurred although most respondents linked this treatment to an appropriate overall measurement model, in particular one that includes all future premiums.

*“...we believe acquisition costs should be expensed when incurred, as they do not meet the conceptual definition of an asset and are generally expensed by non-insurance enterprises that engage in insurance activities.” (p.10)*

International Organisation of Securities Commissions

# How to Proceed

This section summarizes comments on the relationship of Phase II of the Insurance Project to other projects and the differing views on how the Board should advance the Insurance Project.

# Support for the Project

- Almost all respondents support the development of a uniform insurance standard, often referring to it as “much-needed”.
- Approximately one-third of the respondents comment upon the order of the IASB’s projects – i.e., whether the insurance project should be completed before or after the revenue recognition, liabilities, conceptual framework, and financial presentation projects.

# How to Proceed – Other Projects

- Some express concern about the relationship to other industries.

*“Where proposals for insurance contracts are likely to be precedent setting, the IASB will need to engage in wider consultation to ensure that input is received from other industries and that a broad level of support exists for the proposals.” (p.4)*

Institute of Chartered Accountants from England and Wales

- The majority of the respondents, who comment upon the order of projects, support advancing other projects first (spread over companies, standard setters, accounting firms, industry groups, and rating agencies).

*“These concepts are both untried and untested, and we are concerned that the insurance industry is being used as a testing ground for many of the ideas in these other areas. ...We believe firmly that the insurance contracts standard should not be finalized until the proposals for these other fundamental areas of accounting are fully debated and any implications on the insurance project fully explored.” (p.7, cover letter)*

AIG

# How to Proceed – Coordination

- Some of the respondents, who comment upon the order of projects, support accelerating the Insurance Project and/or not slowing down for convergence with U.S. GAAP (spread over companies, three of four big accounting firms, actuarial groups, a standard setter).

*“Although Fitch welcomes this initiative as part of the commendable efforts being made by the IASB and the FASB to achieve general convergence of accounting standards, we would not like to see the IASB revision of IFRS 4 slowed down because the Board was waiting to achieve consensus on this with the U.S. accounting community.” (p.2)*

Fitch Ratings


- Other respondents suggest a strong interlink between projects that should be coordinated as the Insurance Project proceeds to ensure that conflicts are avoided.

# How to Proceed – Field Testing

- Virtually all respondents call for field testing.

*“Given that the changes being proposed are so fundamentally significant, we believe that adequate field testing is essential to identify implementation problems in practice, and to prevent potentially costly problems in the framework from going unidentified.” (p.5, cover letter)*

International Underwriting Association (of London)



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