

International Accounting Standards Board
30 Cannon Street
London
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Paris, December 16, 2010

RE: Exposure Draft ED/2010/8 - Insurance contracts

Dear Madam/Sir,

We are pleased to comment on the above mentioned Exposure Draft (ED) on accounting for insurance contracts.

We acknowledge that the proposed measurement model –the present value of fulfilment cash flows– and the new scope represent significant improvements compared to the exit value model set out in the 2007 Discussion Paper:

- all relevant contract cash flows are analysed including expected policyholder participation cash flows,
- investment contracts with discretionary participation features (DPF) are included in the scope of the ED,
- future premiums are included in the measurement based on sound criteria,
- non financial parameters are set using entity specific data,
- risk which is one of the main component of insurers' liabilities is reflected through an explicit risk margin.

However we believe the proposed model still needs to be improved in order to be applied consistently and to be decision-useful to users.



In this respect we strongly believe that the Board should collect greater input from users of insurers' financial statements, in order to understand their needs and what they think is relevant.

Furthermore, we believe that field tests should be conducted before finalizing the Standard. The Exposure Draft proposes a new and ambitious measurement model, which could add complexity in a number of areas.

For instance, the use of stochastic modelling is likely to increase complexity due to the use of non observable data and judgemental assumptions. We think that field tests should be conducted specifically in this area to ensure the robustness of the model and to highlight the main information to be disclosed and adequate comparability between insurers.

We have identified some issues that in our opinion are not sufficiently taken into account, and we believe that addressing these concerns in the final standard would be a major improvement to the model:

Insurer business model

A current fulfilment value would not adequately reflect the economic substance of insurers' mid -long term business without better interaction with asset accounting methods.

Fair value through P&L for the assets backing liabilities is one way to prevent part of the accounting mismatch. But it doesn't prevent the mismatch caused by short term volatility of the balance sheet due to different measurement parameters being used on both sides. This volatility does not reflect the long term nature of insurance liabilities. We believe that avoiding this short term volatility is important for insurance business and requires further analysis.

The banking industry has the option of applying an amortised cost model on both the asset and liability sides, to take into account its long term business model.

We believe that further consideration should be given to the possibility of allowing insurers to present elements of the changes in both assets and liabilities (e.g. for non realised gains and losses) in OCI, or to use a discount rate locked in at initial recognition (broadly consistent with an amortised cost model).

Residual margin

The Exposure Draft proposes that residual margin is locked in at inception and amortised in a systematic way over the coverage period.

We believe that this margin should be adjusted to offset the changes from re-measurement of the present value of fulfilment cash flows which will affect future periods. This would allow the earned profits of the coverage period to be booked in P&L and avoid unnecessary volatility in earnings.



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We also have concerns regarding a lack of clarity in certain areas of the ED and regarding the transitional provisions:

Uncertainty in some areas of the ED

We believe that clarification should be provided on several issues:

- Principles of unbundling and example given in § 8 (a): unbundling should be limited and based on principles. These principles are not clear enough at this stage. In our understanding, example 8 (a) should not lead to investment contracts with DPF being scoped out of the Exposure Draft.
- Participating contracts measurement: methodologies to be used for these contracts need further explanations.

Transition

We disagree with the proposed transition treatment as it will prevent an insurer from recognising gains from its current contracts in profit and loss.

Transition rules should allow retrospective application (full or simplified methods), so that the balance of the residual margin on contracts in force at the date of transition is subsequently recognised in profit and loss.

The above comments are detailed in our answers to the Board's questions in the Appendix to this letter.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours faithfully

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Appendix to our letter on the Exposure Draft ED 2010/08 – Insurance contracts

MEASUREMENT MODEL

Question 1 – Relevant information for users

Do you think that the proposed measurement model will produce relevant information that will help users of an insurer's financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

We believe the proposed measurement approach will help improve an insurer's financial statements compared to existing accounting models, thanks to the focus on the amount, timing and uncertainty of future cash flows that will arise as the insurer fulfils its existing insurance contracts.

However, we believe that the proposed measurement approach needs clarification and amendment to increase the relevance of financial statements and comparability between insurers:

- The proposed approach will increase volatility in earnings in a manner that we do not believe is appropriate for a long term business. Further consideration should be paid to this issue, especially the subsequent measurement of residual margin, and the elimination of asset and liability mismatches.

We strongly feel that the model proposed should take into account the business model of insurers in the measurement of liabilities, as is the case in IFRS 9 for assets.

- The proposed accounting model will be more complex than previous ones. Stochastic modelling may be needed with the additional judgments this involves. We therefore think that field tests should be performed to identify all the consequences of the Exposure Draft in terms of valuation and disclosure and to ensure comparability between insurers. For instance, stochastic modelling may be used, for savings contracts, to measure the time value of options and guarantees, such as policyholder surrender options. This kind of option is measured based on observable market data (equity and interest rate volatilities), policyholder behaviour (which is not observable and has to be derived from each insurer's own data or market practice) and management actions (credited bonus target, ALM rules, etc.). The proposed accounting model should be challenged in practice to ensure the quality and transparency of the assumptions.

Question 2 - Fulfilment cash flows

- (a) Do you agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract? Why or why not? If not, what do you recommend and why?

We agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the contract.

In this respect we believe that the fulfilment approach is much more appropriate than the exit value proposed in the 2007 Discussion Paper. The fulfilment approach reflects the way an insurance contract is managed by insurers.

However some cash flows whose estimated amounts are particularly uncertain (such as future premiums), should be included only if the residual margin can be used as an absorber as described in our answer to question 6.D.

Question 2 - Fulfilment cash flows

- (b) Is the draft application guidance in Appendix B on estimates of future cash flows at the right level of detail? Do you have any comments on the guidance?

The level of guidance in Appendix B is appropriate for a principles based standard.

Question 3 - Discount rate

- (a) Do you agree that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

We agree with the principle of taking into account the time value of money in the measurement of fulfilment value. We also agree that the discount rate should be consistent with observable current market prices for cash flows whose characteristics match those of the insurance liability.

Question 3 – Discount rate

- (b) Do you agree with the proposal to consider the effect of liquidity, and with the guidance on liquidity? Why or why not?

The rationale for incorporating an adjustment for liquidity in the discount rate should be clarified. Is the ED dealing with the illiquidity of the liability from the policyholders' point of view or the illiquidity of the assets backing the liabilities?

Our main concern concerns comparability between insurers for the same kind of products: although BC 101 concludes that no specific guidance will be provided on how to estimate the liquidity premium, we nevertheless think some should be provided as the liability amount can be sensitive to this adjustment.

Question 3 – Discount rate

- (c) Some have expressed concerns that the proposed discount rate may misrepresent the economic substance of some long-duration insurance contracts. Are those concerns valid? Why or why not? If they are valid, what approach do you suggest and why? For example, should the Board reconsider its conclusion that the present value of the fulfilment cash flows should not reflect the risk of non-performance by the insurer?

Participating contracts

We believe that the paragraphs ED32 and ED.B45-47 should be clarified as:

- some may interpret the current wording as requiring the use of an asset-backed rate in the measurement of participating insurance contracts;
- the scope of contracts concerned is unclear: the wording “depends wholly or partly on the performance of specific assets” is not defined;
- strong emphasis is given to the replicating portfolio approach, which is not a common methodology for measuring liabilities arising from insurance and investment contracts with Discretionary Participation Features.

Our understanding is that for contracts with asset-liability interaction (e.g. insurance/investment contracts with Discretionary Participation Features, unit-linked and index-linked contracts), measurement should take into account this interaction on a market consistent basis: liabilities should take into account investment return of the asset side with a consistent discount rate (i.e. real world or risk neutral valuation).

The IASB should clarify its view on the discount rate measurement for participating contracts.

Own credit risk

We agree that the effects of an entity's own credit risk should not be included in the measurement of an insurance liability.

Question 4 - Risk adjustment versus composite margin

Do you support using a risk adjustment and a residual margin (as the IASB proposes), or do you prefer a single composite margin (as the FASB favours)? Please explain the reason(s) for your view.

We concur with the Board's proposed approach of using a risk adjustment and a residual margin. We think that it is useful to distinguish the margin linked to the uncertainty of the future cash flows (risk adjustment) and the margin arising from the pricing policy of the insurer (residual margin).

We consider that recognising the risk adjustment separately provides useful information to users. The uncertainty around the estimates of future cash flows is a fundamental aspect of insurance business. We feel that providing such information is central to a user's understanding of the insurance activity undertaken.

This position is confirmed by the fact that this risk adjustment can be estimated reliably using common valuation techniques used in other frameworks (regulatory, risk management, profitability indicators).

Using a composite margin would require the introduction of a liability adequacy test, and result in less comparability between insurers.

Question 5 - Risk adjustment

- (a) Do you agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected? Why or why not? If not, what alternatives do you suggest and why?

We agree with the Board's proposal to define the risk adjustment as what the insurer would rationally pay to be relieved of the risk that ultimate fulfilment cash flows exceed those expected. We believe that this fulfilment value approach is more relevant than the exit value approach presented in the 2007 Discussion Paper.

Question 5 - Risk adjustment

- (b) Paragraph B73 limits the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation (CTE) and cost of capital techniques. Do you agree that these three techniques should be allowed, and no others? Why or why not? If not, what do you suggest and why?

We disagree with the proposal.

We believe that a limitation on the techniques used for the calculation of the risk adjustment is unnecessary and not in line with a principles-based approach. Such a limitation would also not permit insurers to take into account any future evolution in risk adjustment modelling.

Techniques used should be in line with the way an insurer manages its business. In any case, we believe that it is necessary to properly disclose the technique used and the reason for choosing it.

Question 5 - Risk adjustment

- (c) Do you agree that if either the CTE or the cost of capital method is used, the insurer should disclose the confidence level to which the risk adjustment corresponds? Why or why not?

We disagree with this requirement.

One of the main objectives of the Board in translating the risk adjustments into a corresponding confidence level would be to allow better comparability between market participants. In our opinion, this requirement raises the following issues:

- For portfolios where the confidence level technique is not the most appropriate method, insurers will have to apply and disclose two techniques instead of one;
- In this case, the confidence level would not give useful information as it would not be the appropriate method to measure the uncertainty of future cash flows;
- For cost considerations, insurers will be motivated to use the confidence level technique whatever the relevance of the information resulting from using it.
- We do not think that disclosing the confidence level will increase comparability between insurers without increasing costs dramatically: a breakdown by line of business and by geographical area would have to be performed to be really able to compare different insurers.

Question 5 - Risk adjustment

- (d) Do you agree that an insurer should measure the risk adjustment at a portfolio level of aggregation (i.e. a group of contracts that are subject to similar risks and managed together as a pool)? Why or why not? If not, what alternative do you recommend and why?

We agree that insurance contracts should be aggregated at portfolio level for the purposes of estimating future cash flows and we support measurement of the risk adjustment at portfolio level rather than at the contract level.

However, as stated in our answer to question 4, the risk adjustment should be calculated consistently with the way an insurer manages its business and its risks. If the insurer takes into account diversification between portfolios in its risk management policy, this should be taken into account in the risk adjustment calculation too, subject to the calculation being reliable and auditable.

Although there may be practical difficulties with the calculation of the risk adjustment at this level and conditions may have to be met on fungibility of liabilities and the free transfer of capital between portfolios, such an approach seems consistent with a fulfilment value measurement basis. Positive or negative correlations between the cash flows of different portfolios will in practice have a real impact on how much the insurer would rationally pay to be relieved of the risk that ultimate fulfilment cash flows exceed those expected. QIS 5 shows what can be done in terms of calculating a risk adjustment based on diversification between portfolios.

Question 5 - Risk adjustment

- (e) Is the application guidance in Appendix B on risk adjustments at the right level of detail? Do you have any comments on the guidance?

We believe that the application guidance in Appendix B should avoid any reference to specific actuarial techniques as it is a principles-based standard, as discussed in our answer to question 5.b.

Question 6 - Residual / composite margin

- (a) Do you agree that an insurer should not recognise any gain at initial recognition of an insurance contract (such a gain arises when the expected present value of the future cash outflows plus the risk adjustment is less than the expected present value of the future cash inflows)? Why or why not?

We welcome the proposal that an insurer should not recognise any gain at initial recognition of an insurance contract.

This position is consistent with our answer to the Discussion Paper, and with our view that insurance contracts represent a service over a long period and that their net profit should therefore not be recognised at inception (assuming the service has not already been fully rendered).

Question 6 - Residual / composite margin

- (b) Do you agree that the residual margin should not be less than zero, so that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss (such a loss arises when the expected present value of the future cash outflows plus the risk adjustment is more than the expected present value of future cash inflows)? Why or why not?

We agree with the proposal.

Question 6 - Residual / composite margin

- (c) Do you agree that an insurer should estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period? Why or why not? If not, what do you recommend and why?

We agree that at inception, the residual margin should be calculated at a more granular level than the portfolio level – similar date of inception and similar coverage period seem to be an appropriate level of aggregation.

On an ongoing basis, unit of measurement should be aligned with the other blocks, i.e. at portfolio level.

We believe this area should be covered by field testing to ensure the appropriateness of the level of aggregation, both in terms of practicality and relevance.

Question 6 – Residual/ composite margin

(d) Do you agree with the proposed method(s) of releasing the residual margin? Why or why not? If not, what do you suggest and why?

We do not agree with the proposal – firstly on the principle of locking in the amortisation pattern, and secondly on the period for releasing the residual margin.

Release of the residual margin

We do not agree with the proposal to lock in the amortisation pattern of the residual margin.

In our view, the residual margin calculation at inception reflects the overall profitability of contracts. The residual margin should be released in profit and loss taking into account changes in estimates, as changes in estimates impact the profitability of the contracts.

As a consequence, we believe that subsequent measurement of the residual margin should be consistent with its initial measurement, so that the residual margin continues to reflect the future profitability of the contracts based on current expectations at the re-measurement date: changes in assumptions/estimates that have an impact on future periods should lead to an adjustment of the residual margin such that the residual margin represents the expected future profitability of the contract at the reporting date.

For example, in the Exposure Draft proposal, any adverse change in the initial estimates of uncertain cash flows such as future premiums would result in a loss, while the part of the residual margin linked to future profitability of those cash flows would continue to be released in profit in future periods.

Amortisation period

We do not think that the residual margin should be released over the coverage period for the following reasons:

- the insurer is providing services to the policyholder over both the coverage and claims handling periods;
- the fulfilment cash flows and the risk adjustment are re-measured over the coverage period and claims handling period.

Consequently, we consider that the residual margin (which should be re-measured in our view as described above) should be released over both the coverage and claims handling period.

Question 6 - Residual / composite margin

- (e) Do you agree with the proposed method(s) of releasing the composite margin, if the Board were to adopt the approach that includes such a margin? Why or why not?

As discussed in our response to Q4, we do not support the composite margin approach.

We prefer in any case an amortisation driver principle instead of a formula which would not capture all diversity of insurance contracts.

Question 6 - Residual / composite margin

- (f) Do you agree that interest should be accreted on the residual margin? Why or why not? Would you reach the same conclusion for the composite margin? Why or why not?

We agree conceptually with the proposals for the reasons stated in BC131-BC133, but we feel that its calculation would add layers of cost and complexity that are not matched by an increase in the usefulness and transparency of the financial statements for users.

Question 7 - Acquisition costs

Do you agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not? If not, what do you recommend and why?

We agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contracts.

This proposal is consistent with the proposed fulfilment measurement of the cash flows of the contract. However, we consider that the incremental acquisition costs should be determined at portfolio level (to be consistent with the other cash flows, including management expenses) and not at contract level.

SHORT-DURATION CONTRACTS

Question 8 - Premium allocation approach

- (a) Should the Board (i) require, (ii) permit but not require, or (iii) not introduce a modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts? Why or why not?

In our opinion, the implementation of a modified measurement approach for short term duration contracts is a proxy for the building blocks approach. As a result we consider that it should be permitted if considered as appropriate by an insurer. However, as a proxy, it should be only permitted but not required as it could introduce additional work for some insurers: i.e. this approach could lead to increased complexity in preparing the financial statements of composite insurers.

Question 8 - Premium allocation approach

- (b) Do you agree with the proposed criteria for requiring that approach and with how to apply that approach? Why or why not? If not, what do you suggest and why?

The premium allocation approach is welcome as a permitted but not required proxy. Nevertheless we would prefer less prescriptive criteria for determining contracts to which it may be applied. We would like insurers to be able to use this approach for any portfolio in which the majority of contracts meet the definition of short i.e. not every contract needs to be short.

It would be better if the duration of contracts could be extended to two or possibly three years rather than one. Alternatively, rather than using duration, the standard could permit application of the approach based on the type of contract concerned.

Moreover, specific cases should be taken into account, such as reinsurance treaties, where the coverage period actually spreads over 2 years when the underlying insurance contracts' coverage period is one year (see answer to question 9).

CASH FLOWS THAT ARISE FROM FUTURE PREMIUMS

Question 9 - Contract boundary principle

Do you agree with the proposed boundary principle and do you think insurers would be able to apply it consistently in practice? Why or why not? If not, what would you recommend and why?

We consider that the proposed boundary principle is appropriate.

However, we believe that further guidance would be necessary on several topics:

- Group contracts: the policy itself has quite often a one-year duration but the underlying risks may be long-term (e.g. group life). Should an entity apply a look-through approach to such contracts or shall it consider them as short-term contracts?
- Reinsurance treaties: under some treaties a reinsurer accepts business written during a calendar year, the underlying risks being themselves 1 year policies with inception dates spread over that calendar year. Are such treaties short-term contracts in the sense of this exposure draft or are they long-term, since the coverage period is actually two years?

PARTICIPATING FEATURES

Question 10 - Participating features

- (a) Do you agree that the measurement of insurance contracts should include participating benefits on an expected present value basis? Why or why not? If not, what do you recommend and why?

We agree with the proposal that the measurement of insurance contracts should include participating benefits on an expected present value basis as this is consistent with the fulfilment approach for the measurement of the cash flows.

We would, however, like to flag a potential issue that might affect users' understanding of the financial statements of some mutual insurers. Mutual insurers do not have share capital and the unallocated surplus on with profits business is a principal source of their equity. According to the ED and in particular B61 (j), mutual insurers writing insurance contracts with discretionary participation features ("with profits business" such as in the UK) should include the payments expected to be made to current or future policyholders in the calculation of their insurance liabilities.

Therefore the balance sheet of such mutuals would not include any item that is readily recognisable by users as "capital" or equity. Whilst we accept that the unallocated surplus

needs to be shown as a liability, we would like insurers in this position to be able to show it as a separate component of insurance liabilities on the face of the balance sheet. This is the treatment currently adopted by certain insurers in the UK under IFRS 4 phase 1.

Question 10 – Participating features

- (b) Should financial instruments with discretionary participation features be within the scope of the IFRS on insurance contracts, or within the scope of the IASB's financial instruments standards? Why?

We believe that it is critical that all participating contracts, whether classified as insurance or financial instruments, should be accounted for consistently as they share many of the same features.

As of today, the ED Insurance contracts is the only source of comprehensive and sound guidance for the accounting treatment of discretionary participation features (DPF).

Therefore, we support the proposal to include financial instruments with DPF within the scope of the ED Insurance contracts. However, this view is subject to our comments on unbundling set out in question 12.

Question 10 – Participating features

- (c) Do you agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity? Why or why not? If not, what do you recommend and why?

As stated in our response to question 10.b, we disagree as participating contracts, whether classified as insurance or investment contracts, should, in our view, be treated in the same way.

The rule proposed in the ED does not generate any added value as it would be easily by passed.

Question 10 - Participating features

- (d) Paragraphs 64 and 65 modify some measurement proposals to make them suitable for financial instruments with discretionary participation features. Do you agree with those modifications? Why or why not? If not, what would you propose and why? Are any other modifications needed for these contracts?

As stated in our answer to question 6, we believe that the residual margin should be re-measured at each reporting date.

The part corresponding to the amortisation of realised profit should go through P&L on the basis of the driver which best represents the provision of the services. This driver could be in some cases assets backing liabilities, and in some cases the fair value of assets.

We would prefer an earnings recognition principle which would capture different cases according to the relevant performance driver and thus be linked to the insurer's business model.

DEFINITION AND SCOPE

Question 11 - Definition and scope

- (a) Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

We disagree with the two changes.

We note that the new items added to the definition that would in particular lead to assessing the existence of a scenario with commercial substance in which the present value of cash outflows can exceed the present value of the premiums, could affect the treatment of reinsurance contracts.

As the IFRS 4 phase 1 definition was sustainable, we do not see the benefit of changing the definition, as it would mean revisiting all the phase 1 classifications, unless a clear rationale for doing so is given that would significantly change the cost/benefit analysis.

Question 11 - Definition and scope

- (b) Do you agree with the scope exclusions in paragraph 4? Why or why not? If not, what do you propose and why?

We agree with the scope exclusions in paragraph 4.

Question 11 - Definition and scope

- (c) Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

We agree that financial guarantees should be within the scope of the IFRS on insurance contracts if they meet the definition of an insurance contract and the policyholder holds the underlying instrument.

UNBUNDLING

Question 12 - Unbundling

Do you think it is appropriate to unbundle some components of an insurance contract? Do you agree with the proposed criteria for when this is required? Why or why not? If not, what alternative do you recommend and why?

We understand unbundling as proposed as an anti-abuse measure but it should be noted that unbundling is contrary to a central principle of the ED that an insurance contract is "a bundle of rights and obligations that work together...". Hence we consider that unbundling should be kept to a minimum, especially as estimating the cash flows of the different components will often be arbitrary.

Unbundling might not serve any useful purpose as far as users are concerned. There might not be any material difference in outcomes and, because IAS 39 and IFRS 9 have mixed measurement models for financial liabilities, comparability between entities might not be improved.

As a consequence of the above, we believe that clear principles should be stated around unbundling. We ask the Board to justify the principles behind the examples given (especially example 8.a) and clarify their wording.

PRESENTATION

Question 13 - Presentation

- (a) Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?

We think that the summarised margin presentation will be useful as it is consistent with the measurement approach.

However, clarification is needed on how insurers using more than one measurement model (e.g. with long and short duration contracts) should present their P&L. Presentations that differ according to the model will not give a clear view to users of financial statements.

Question 13 - Presentation

- (b) Do you agree that an insurer should present all income and expense arising from insurance contracts in profit or loss? Why or why not? If not, what do you recommend and why?

We do not agree with the fact that all income and expense should be presented in profit and loss.

As stated in our cover letter, we think that the Board should give further consideration to a measurement model that would permit all unrealised gains and losses, either on assets or liabilities, to be recognised in OCI, in order to reduce volatility in earnings, such volatility being contradictory to the long term stability of insurance contracts.

DISCLOSURES

Question 14 - Disclosures

- (a) Do you agree with the proposed disclosure principle? Why or why not? If not, what would you recommend, and why?

The proposed disclosure principle is adequate.

Question 14 - Disclosures

- (b) Do you think the proposed disclosure requirements will meet the proposed objective? Why or why not?

There is a risk that there will be too much detail in the required disclosures and that useful information will be obscured by the inclusion of a large amount of insignificant detail.

Question 14 - Disclosures

- (c) Are there any disclosures that have not been proposed that would be useful (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful.

None.

UNIT-LINKED CONTRACTS

Question 15 - Unit-linked contracts

Do you agree with the proposals on unit-linked contracts? Why or why not? If not what do you recommend and why?

The proposals on unit-linked contracts should be clarified. Indeed, we do not understand whether the Board considers that these contracts have to be unbundled or not.

Pursuant to § 8.a and IN26, we understand that unit-linked contracts have to be unbundled and measured according to IAS39/IFRS9. However, in other parts of the Exposure Draft, we understand that unit-linked contracts could be measured under IFRS 4 -§ BC97 clearly states that insurers would capture the linkage between assets cash flows and cash flows arising from the liability in unit-linked contracts by using a replicating portfolio technique.

We consider therefore that the requirements for unit linked contracts are confusing and need to be clarified in order to be properly assessed.

We agree with the proposals made in the Exposure Draft to address the accounting mismatches that arise from the existing measurement of the insurer's own shares and property occupied by the insurer.

REINSURANCE

Question 16 - Reinsurance

- (a) Do you support an expected loss model for reinsurance assets? Why or why not? If not, what do you recommend and why?

We agree with the expected loss model for reinsurance assets. This is consistent with a fulfilment approach.

Question 16 - Reinsurance

- (b) Do you have any other comments on the reinsurance proposals?

We have several concerns on reinsurance proposals:

- Clarification is needed as to whether the premium allocation model is applicable to ceded reinsurance.,
- We think in addition that calculating the risk adjustment is not straight forward when a reinsurance contract protects more than one portfolio. This practical issue should be addressed through field tests.
- Justification for recognising day one gains on reinsurance ceded should be included in the standard. Any such gains should be explicitly linked to the day one losses of the underlying inwards business -perhaps as "reinsurance recoveries" on day one losses.

TRANSITION AND EFFECTIVE DATE

Question 17 - Transition and effective date

- (a) Do you agree with the proposed transition requirements? Why or why not? If not, what would you recommend and why?

We disagree with the proposed transition treatment as it will prevent an insurer from recognising gains from its current contracts in profit and loss.

Transition rules should allow retrospective application -full or simplified- so that the balance of the residual margin on contracts in force at the date of the transition is subsequently recognised in profit and loss.

It will be necessary to take into account the practical difficulties caused by implementation in determining the date of application of the standard (sufficient time should be allowed in order to establish a comprehensive audit trail of the necessary measurement adjustments).

Question 17 - Transition and effective date

- (b) If the Board were to adopt the composite margin approach favoured by the FASB, would you agree with the FASB's tentative decision on transition?

As discussed in our response to question 4, we support the IASB approach i.e. measurement of a separate risk adjustment and residual margin.

If the Board were to adopt the composite margin approach, we would also disagree with the FASB's tentative decision on transition, as it is similar to the Board's proposal.

Question 17 - Transition and effective date

- (c) Is it necessary for the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9? Why or why not?

We support the alignment of the effective date of the future IFRS on insurance contracts and of IFRS 9 as it is necessary for entities to take into consideration the measurement of both their financial assets and their insurance contracts at the same time. In this respect, entities may need to modify their classification of assets under IFRS 9 and as such, would benefit from not having to do it twice (once in the context of IFRS 9 and then again in the context of the future standard on insurance contracts).

Question 17 - Transition and effective date

(d) Please provide an estimate of how long insurers would require to adopt the proposed requirements.

As auditors we are not able to assess the timeframe that would be necessary to implement the proposed requirements. Nevertheless we wish to stress that the proposals set out in the ED will be complex to implement and imply significant IT changes involving comprehensive testing.

As such, we consider that as much time as feasible should be granted to all insurers.

OTHER COMMENTS

Question 18 - Do you have any other comments on the proposals in the exposure draft?

No.

Question 19 - Benefits and costs

Do you agree with the Board's assessment of the benefits and costs of the proposed accounting for insurance contracts? Why or why not? If feasible, please estimate the benefits and costs associated with the proposals.

No comment