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Wien, Februar 2010

To my parents who
made this possible to me

Meinen Eltern die
mir dies ermöglicht haben

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List of Abbreviations

AASB	Australian Accounting Standards Board
AFRAC	Austrian Financial Reporting and Auditing Committee
AVÖ	Aktuarenvereinigung Österreichs - Austrian Acturial Association
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CL	Comment Letter
DP	Discussion Paper
ED	Exposure Draft
FASB	Financial Accounting Standards Board
GNAIE	Group of North American Insurance Enterprises
IAA	International Acturial Association
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standard
IASB	International Accounting Standard Board (also "the board")
IFRS	International Financial Reporting Standard
na	not available

1 Introduction

1.1 Subject Matter

Nowadays the companies deal with a very wide range of market opportunities in different countries all over the world. Due to the growing internationalization there is a high demand for comparable financial reporting. The efforts of the International Accounting Standards Board (IASB) are a very important development to gain comparability of financial reports. One important industry is not yet included in any standard issued by the IASB. The insurance industry does not have a finalized standard yet. However there is the project “Insurance Contracts” going on for years. Currently the standard is in the final phase and about to be finalized in 2011.

1.2 Aim of the Thesis

This thesis is based on the discussion paper (DP) “Preliminary Views on Insurance Contracts” issued by the IASB in May 2007. As one step of the project the general public was invited to comment on the Board’s views. The discussion paper contains twenty precise questions to be answered and their aspects to be discussed. This thesis is about the so-called comment letters, which include mainly the responses to those questions, but also other general comments. These comment letters will be analysed to get main findings of the submitters’ opinions. Due to the extent of the comments the topics discussed in the DP were split into two parts. This thesis focuses on the first three out of six, namely (1) recognition and derecognition of insurance contracts, (2) the measurement of insurance liabilities and (3) the affects of policyholders’ behaviour.

1.3 The IASB's Project "Insurance Contracts"

Until the IASB decided to start the project, "there was no IFRS on insurance contracts, and insurance contracts were excluded from the scope of other relevant IFRSs."[1] As a matter of fact accounting on insurance contracts varies a lot among different countries. It especially differs in practice from other financial sectors.[2] These two main reasons made the IASB to initiate this giant project "Insurance Contracts".

Already back in 1997 the International Accounting Standards Committee (IASC), the predecessor of the IASB started the initial work on insurance contracts. Due to the fact that the project was extensive it has been split into two phases in May 2004. Reason for this split was "to enable insurers to implement some aspects of the project in 2005."[3] So the current interim version of the IFRS 4 should be already applied by insurer's financial statement for 2005. In May 2007 the IASB issued the discussion paper "Preliminary Views on Insurance Contracts". After a six month period of public consultation the Board reviewed the comments. In February 2008 the IASB issued an "Overview of Comments" which showed a vague idea of the more controversial topics. This thesis should give a more detailed insight into the topics discussed by the commenters.

1.3.1 Phase I

"Phase I of this project resulted in IFRS 4 Insurance Contracts, an interim standard that permits a wide variety of accounting practices for insurance contracts. Many of these practices differ from those used in other sectors and make it difficult to understand insurers' financial statements."[4] Furthermore, a new definition of insurance contracts has been made. Reason for a redefinition was that some contracts were previously subject to IAS 39 (Financial Instruments: Recognition and Measurement), which should be qualified as insurance contracts. In detail, contracts which transfer besides financial

[1] IASB Homepage: Current Projects – Insurance Contracts (24.02.2009)
[2] cf. IASB Homepage: Current Projects – Insurance Contracts (24.02.2009)
[3] IFRS 4 Insurance Contracts - Frequently asked questions (July 2004), Page 3
[4] IASB Homepage: Current Projects – Insurance Contracts (24.02.2009)

risk also significant insurance risk will be covered by the new definition.

The temporary aim of IFRS 4 is to permit "a wide variety of accounting practices for insurance contracts."[5] As IFRS 4 is just an interim standard it still needs to be improved. The current version causes an accounting mismatch. In the “frequently asked questions” paper the IASB describes it as follows: “Accounting mismatch arises if changes in economic conditions affect assets and liabilities to the same extent, but the carrying amounts of those assets and liabilities do not respond equally to those economic changes. Specifically, accounting mismatch occurs if an entity uses different measurement bases for assets and liabilities.”[6]

1.3.2 Phase II

”In phase II, the current phase, the Board intends to develop a standard that will replace the interim standard and that will provide a basis for consistent accounting for insurance contracts on the longer term.”[7] Until the issuance of the discussion paper in May 2007 there were several educational sessions covering insurance related topics. Then the IASB gave the public the opportunity to comment within a period of six months. After that period the IASB reviewed the comments and would modify or confirm its preliminary views.[8] The Board's intention with the development project was to "pay particular attention to the need for users of an insurer’s financial statements to receive relevant and reliable information, capable of preparation at a reasonable cost, as a basis for economic decisions."[9] This thesis deals with the public comments available on the IASB’s webpage and tries to find consistency within specific homogeneous groups or even among all of them.

[5] DP - Part 1, p. 8
[6] IFRS 4 Insurance Contracts - Frequently asked questions (July 2004), p.5
[7] IASB Homepage: Current Projects – Insurance Contracts (24.02.2009)
[8] cf. DP: Part 1, p. 8
[9] DP - Part 1, p. 8

1.3.3 Outlook of the Project

When issuing the discussion paper the IASB had planned an Exposure Draft (ED) in the fourth quarter of 2009 and a finalized standard in 2011. But as this topic is very complex and seems to take more time for development a new schedule was already published in mid 2009. "This time table aims for an exposure draft in April 2010; the previous time table we published (April 2009) planned an exposure draft by the end of this year."[10] So there is some kind of postponement in line with providing a detailed guidance on accounting for insurance contracts. Nevertheless the time table and the progress of the IASB's work are not further relevant for the rest of this thesis.

2 Topics of the First Half of the Discussion Paper

2.1 Introduction

"This discussion paper presents the preliminary views of the International Accounting Standards Board on the main components of an accounting model for insurance contracts. The Board formed those views in phase II of its project on insurance contracts."[11] The DP is divided into seven chapters including an introductory one. The reader is first provided with an overview of the chapters and a brief summary of the main points and the invitation to comment. Then the topics in discussion are explained in detail. The paper consists of two parts. Part 1 is the main paper including the points to be discussed. Part 2 includes the appendices, which states the precise questions, a detailed comparison with IAS 39, connections to other ongoing projects, issues not covered in the DP, some examples and more detailed information on topics covered in chapter 5 (Measurement - other issues).

[10] Agenda Paper 10F, p. 1
[11] DP - Part 1, p. 8

2.2 Recognition and Derecognition

Initially it is necessaries to know what is considered as an insurance contract. The current interim standard defines it as a “contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.”[12] However, the IASB did not consider in the DP whether this definition is still appropriate or not. “The Board plans to consider that in developing an exposure draft.”[13] In general all types of insurance contracts are in the IASB’s focus in the DP: life and non-life, direct insurance and reinsurance.

After the definition of an insurance contract is given so far the question of recognition and the later derecognition comes up. Here is the main question, whether the recognition and derecognition of insurance contracts should be consistent with IAS 39 (Financial Instruments: Recognition and Measurement) or not. Referring to that standard an “entity shall recognise a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.”[14] For the IASB it is appropriate that the recognition of insurance contracts is consistent with IAS 39.[15] However, it is in discussion whether the consistency with the recognition criterion of IAS 39 is appropriate or whether it should be departed from the financial instruments standard. The IASB sees reasons for different derecognition criteria. And requires that “an insurer should derecognise an insurance liability (or a part of an insurance liability) when, and only when, it is extinguished […]”[16]

[12] IFRS 4 – Appendix A
[13] DP – Part 1, p. 21
[14] IAS 39.14
[15] DP – Part 1, p. 26
[16] DP - Part 1, p. 26

2.3 Measurement of Insurance Liabilities

2.3.1 Introduction

The nature of an insurance contract is very unique compared to other contracts, especially when it comes to the measurement of the liability connected with the contract. This special characteristic is that an insurer first receives the premium from the policyholder in advance and then, with a certain probability, has to pay compensation in case the insured event occurs. This compensation is uncertain in terms of occurrence and the amount of possible payments.

This chapter deals with the method of how to measure the cash flows of an insurance contract in an appropriate way. The basic cash flows of an insurance contract from the insurer's point of view is first the premium received from the policyholder and second with a certain probability the payment in the case of an occurrence of the insured event to the policyholder or the beneficiary. The premium payment is known at the time of conclusion whereas on the other hand the costs for the insured event are unknown. The IASB's definition makes this clearer: "However, for insurance contracts, the revenue (ie premiums) is generally known (and received) in advance and the costs (claims and benefits) are not known until later."[17]

This leads to the question of how the uncertain costs for the insured event and further the connected liability can be measured. "The Board's objective is to select a measurement model that gives users useful information about the amount, timing and uncertainty of the future cash flows resulting from the contractual rights and contractual obligations created by insurance contracts."[18] This objective should be best achieved by the use of the three building blocks: (1) an estimate of the future cash flows, (2) the effect of the time value of money and (3) the margin.[19] The Board names different measurement models, which "differ in how they determine these building blocks."[20]

[17] DP - Part 1, p. 21
[18] DP - Part 1, p. 27
[19] cf. DP - Part 1, p. 27
[20] DP – Part 1, p. 27

2.3.2 Estimates for Future Cash Flows

The first of the three building blocks is the estimate of the future cash flow arising from the contract.[21] The IASB uses the term "estimate" which could result in high variation of calculating the insurance liability. "The Board intends to give high level guidance on the estimation, but not to develop detailed guidance […]"[22] Regarding the insurance liability to be measured the IASB suggests that an insurer makes the estimates of the future cash flows: "(a) explicit, (b) as consistent as possible with observable market prices, (c) incorporated, in an unbiased way, all available information about the amount, timing and uncertainty of all cash flows arising from the contractual obligations, (d) current, in other words they correspond to conditions at the end of the reporting period and (e) exclude entity-specific cash flows. Cash flows are entity-specific if they would not arise for other entities holding an identical obligation."[23] Thus, it can be concluded that the IASB wants the estimate of the future cash flows to be as market orientated as possible, which should implicitly result in an objective financial reporting of insurance contracts.

2.3.2.1 Explicit Estimates

The Board is not in common whether the estimates should be explicit in all cases or not, as some members of the Board are of the opinion that if measurement contains reasonable margins this should be sufficient. However, they make sure that "[…] explicit estimates result in a more faithful representation of the claims of policyholders on the resources of the insurer."[24]

2.3.2.2 Consistency with Observed Market Prices

The relevant inputs for estimating the cash flows are mostly market related prices, such as interest rates or prices for traded equity.[25] The opinions on the observable market prices are uniform, but the Board argues, that if the insurer has other evidence that is

[21] cf. DP - Part 1, p. 28
[22] DP - Part 1, p. 28
[23] DP - Part 1, p. 28
[24] DP - Part 1, p. 28
[25] Cf. DP – Part 1, p. 29

more persuasive than the observed rates or prices, it should be used.[26]

2.3.2.3 Unbiased Use of all Available Information

As already mentioned the costs for the future insured event is uncertain. The question is how the uncertainty should be taken into account. The IASB's "preliminary view is that the measurement should start with an estimate of the expected present value of the cash flows generated by the contract."[27] The expected present value is representing a weighted average of all possible cash flows, weighted by their probability. "Determining an expected present value involves: (a) identifying each possible scenario, (b) determining the present value of the cash flows in that scenario […], (c) making an unbiased estimate of the probability of that scenario occurring. Depending on the circumstances, an insurer might develop these estimates by identifying individual scenarios, by developing a formula that reflects the insurer's estimate of the shape and width of the probability distribution or by random simulation."[28] The determination of the expected present value should be neutral, which means not biased in any way. For the IASB "neutrality is essential, because biased financial reporting information cannot faithfully represent economic phenomena."[29]

2.3.2.4 Current Estimates

The Board agrees on the point that the measurement should be based on current information. "However, there are two main approaches to estimating cash flows during the pre-claims period."[30]

One approach can be named the "lock in"-approach. It only takes information into account, which is available at the time of inception. Information occurring at a later point in time is not taken into consideration. This approach "[…] uses the same estimates throughout the life of the contract, unless the insurer needs to recognise a loss

[26] cf. DP - Part 1, p. 29
[27] DP - Part 1, p. 30
[28] DP - Part 1, p. 30
[29] DP - Part 1, p. 31
[30] DP - Part 1, p. 31

because of a liability adequacy test."[31] This liability adequacy test is required if liabilities are not measured at a current value. It is similar to an impairment test, regarded for assets which are not measured at a current value.[32] Supporters of this approach note that it is used in many existing accounting models.[33] Another advantage of this approach is that it is more economic in the way "that it is less burdensome and costly than the current estimate approach [...] and involves fewer subjective estimates and portrays less volatility."[34]

The second approach is favoured by the Board. It "[…] uses all currently available information."[35] The advantage of this approach lies within reliable and faithful representation of the insurer's contractual obligations and gives more detailed information about the amount, timing and uncertainty of the cash flows connected with those obligations.[36] Furthermore it requires the reporting insurer to reconsider the circumstances which justified the estimates and to take eventual changes into account. Moreover, "it provides a more coherent framework for more complex contracts, such as multi-year, multi-line or stop loss contracts."[37] In addition it is consistent with other IFRSs and reduces possible accounting mismatches.[38]

2.3.2.5 Entity-specific Cash Flows

As all of the estimates and prerequisites for those approaches justify the comparability of insurers' reports any entity-specific information should not be included. "In other words, the measurement should not capture cash flows that are specific to the insurer and would not arise for other market participants holding an obligation that is identical in all respects (entity-specific cash flows)."[39] This does not mean that a very specific portfolio of insurance obligations held by one insurer is entity-specific for this insurer, just because it has a very specific portfolio.

[31] DP - Part 1, p. 31
[32] cf. DP - Part 1, p. 35
[33] cf. DP - Part 1, p. 31
[34] DP - Part 1, p. 31
[35] DP – Part 1, p. 32
[36] cf. DP - Part 1, p. 32
[37] DP - Part 1, p. 32
[38] DP - Part 1, p. 33
[39] DP - Part 1, p. 36

2.3.3 *Time Value of Money*

The second building block deals with the question whether the measurement of an insurance liability should relate to the time value of money. A present value reflects the time value of money if cash flows at different points of time are discounted with factors related to those points of time. Mainly two questions are treated in the DP and are of major importance:

"(a) Should the carrying amount of insurance liabilities reflect the time value of money?

(b) If the carrying amount of insurance liabilities reflects the time value of money, how should the discount rate be determined?"[40]

There are some reasons which do not speak for discounting all kinds of insurance contracts. However, the IASB argues that even if that could cause some increase in subjectivity and costs, the increase in relevance will be outweighed.[41]

2.3.4 *Margins*

The third building block deals with the question how margins related to insurance liabilities are measured. The DP differs between (1) the margin for the service of bearing risk (risk margin) and (2) margins for other services.[42]

2.3.4.1 Risk Margin

As insurance related cash flows contain a component of uncertainty this risk should somehow be taken into consideration, especially the extent of reported liabilities. “The measurement of liabilities needs to include an input that reflects the extent of uncertainty.”[43] Generally there are two different views on what the risk margin represents namely (1) the Shock Absorber View and (2) the Compensation View. “Some view risk margins as a ‘shock absorber’— something included in the liability to avoiding recognising an expense in the future if payments to policyholders exceed the amount previously recognised as a liability. Others view risk margins as an explicit and

[40] DP - Part 1, p. 38
[41] cf. DP - Part 1, p. 40
[42] cf. DP - Part 1, p. 43
[43] DP - Part 1, p. 43

unbiased measurement of the compensation that entities demand for bearing risk."[44]

The proponents of the **Shock Absorber View** name the following advantages:

- There is less volatility within profit or loss and equity.[45]
- Under the compensation view if risk increases an expense is realized. Than, later when the insurer is released from this risk income will be recognized. "That income does not represent cash received or receivables from the policyholder, but instead represents cash that might have been receivable if the insurer had been free to reprice the contract."[46]
- There is no need for subjective estimates of the price of risk after inception.[47]
- "Some regard the shock absorber view as particularly relevant for participating contracts because participating policyholders bear risks up to a specified point. Beyond that point, the risks are borne by shareholders (if any)."[48]
- Furthermore, there is more consistency with other approaches in other joint projects of the IASB and the Financial Accounting Standards Board (FASB).

Nevertheless, the IASB favours the **Compensation View** and names following advantages:

- "Reports changes in estimates promptly and transparently."[49]
- Compared to the shock absorber view, the compensation view reports exposures as they occur. Furthermore, "in contrast, the shock absorber view would mean that an insurer might, if the entire risk margin has been used up to absorb losses, measure a highly uncertain liability at the same amount as a fixed liability."[50]
- The risk margin under this perspective has a clear objective.[51]
- Moreover, it requires insurers to focus more explicitly on their risk exposure.[52]

Since a risk margin is not directly observable in the market, the Board requires the **estimation of the risk margin**. The insurer reports using the following estimates, both

[44] DP - Part 1, p. 43
[45] cf. DP - Part 1, p. 45
[46] DP – Part 1, p. 45
[47] cf. DP - Part 1, p. 45
[48] DP - Part 1, p. 45
[49] DP - Part 1, p. 45
[50] DP - Part 1, p. 45
[51] cf. DP - Part 1, p. 45
[52] cf. DP - Part 1, p. 45

at inception and subsequently:[53]

- Comparison of how other market participants would measure the quantity of risk and determine the units of risk.[54]
- "Use the cash flow scenarios to estimate the number of units of risk present in the liability"[55]
- Use an appropriate mix of observed market prices of similar contracts, pricing models and other inputs available.[56]
- "Multiply the estimated margin per unit by the estimated number of units to determine the aggregate margin. The change in the aggregate risk margin is income or expense."[57]
- Test the estimates for possible errors.

Furthermore, the IASB discusses the **calibration of the risk margin**. The price of an insurance liability is only observable once, when the premium is paid by the policyholder. At inception the insurer and the policyholder agree on a certain price for the insurance contract.[58] "That price is one source of evidence that an insurer could use at inception in calibrating the risk margin per unit of risk."[59] That source of evidence can be used in two ways, namely by implementation A and B. These two implementations differ in the way the premium is seen at inception according the risk margin.

- "*Implementation A* calibrates the margin per unit at inception directly to the actual premium charged […] unless a liability adequacy test reveals a loss at inception."[60] Thus, in general there will be no recognition of a profit at this point in time.
- *Implementation B* does not put as much weight on the price as implementation A does, but it is "an important reasonableness check on the initial measurement of

[53] cf. DP - Part 1, p. 46
[54] cf. DP - Part 1, p. 46
[55] DP - Part 1, p. 46
[56] cf. DP - Part 1, p. 46
[57] DP - Part 1, p. 46
[58] DP – Part 1, p. 47
[59] DP - Part 1, p. 47
[60] DP - Part 1, p. 47

the insurance liability."[61] If there is no evidence that market participants would charge another price in an unbiased way both implementations lead to the same outcome.[62]

- Furthermore the IASB suggests an *intermediate implementation* presuming that "[…] market participants require a margin consistent with the margin implied by the actual premium (less relevant acquisition costs)."[63]

2.3.4.2 Service Margins

An insurer does not only provide the service of bearing risk, it also provides other kinds of financial services. "An important example is when the contract requires the insurer to provide investment management services, such as in many unit-linked contracts or universal life contracts and some participating contracts."[64] At this point it must be stated that also other financial service providers would charge an adequate margin, so also the insurer is calculating this margin into its prices. However, the IASB does not provide any further example for a service justifying such a margin.

2.3.5 Benefits of the three Building Blocks

Following the view of the IASB the three building blocks offer a lot of advantages. In this regard it has to be mentioned again that the building blocks do not affect the model of measurement but its determination. The most important benefits of the three building blocks are:

- "Relevant information about the amount, timing and uncertainty of future cash flows arising from existing insurance contracts."[65]
- It requires the insurer to make explicit estimates, rather than rely on the implicit margins at inception.[66]
- It takes changes in estimates into account, especially with the use of a liability

[61] DP - Part 1, p. 47
[62] cf. DP - Part 1, p. 47
[63] DP – Part 1, p. 47
[64] DP - Part 1, p. 55
[65] DP - Part 1, p. 57
[66] cf. DP - Part 1, p. 57

adequacy test.

- Consistency for all types of insurance contracts also for more complex contracts.[67]
- "Consistency with other IFRSs that require current estimates of future cash flows in measuring provisions (see IAS 37) and financial liabilities (see IAS 39)."[68]
- "No need to separate embedded derivatives"[69]
- "No need for anti-abuse rules to prevent selective recognition of previously unrecognised economic gains through reinsurance, or for arbitrary criteria to distinguish amendments to an existing contract from new contracts."[70]
- Less reporting of "economic mismatches between the insurance liabilities and the related assets and a reduction in accounting mismatches."[71]

2.3.6 Summary –three Building Blocks

To summarize it can be said that the use of the three building blocks should an adequate tool for the measurement of insurance liabilities. In the DP the board points out that the three building blocks lead to a sufficient amount of information for users of financial statements. "The measurement that results from using those three building blocks will be most helpful to users if it represents faithfully a real-world economic attribute of the asset or liability being measured."[72] Nevertheless, the model does not necessarily require a specific measurement attribute.

2.3.7 Suggested Measurement Models

After the three building block model is explained the Board names a couple of models to measure the insurance liabilities. In general theory such models are divided into those with a retrospective and others with a prospective view. As the Board mentions in its "Three Building Blocks"-view future cash flows there is only a focus on models

[67] cf. DP - Part 1, p. 58
[68] DP - Part 1, p. 58
[69] DP - Part 1, p. 58
[70] DP - Part 1, p. 58
[71] DP - Part 1, p. 58
[72] DP - Part 1, p. 59

representing the prospective, future-orientated view. Besides its favoured "current exit value" model the IASB mentions six other possible prospective measurement models.

2.3.7.1 Current Exit Value

In the Board's preliminary view the most adequate measurement model is the so called 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."[73] It is not observable, because the insurer is not expected that it can, will or should transfer any liability to a third party.[74] The current exit value is the model favoured by the Board, even though it states some argument against it. Nevertheless the "Board has considered several other possible measurement attributes.[…]"[75]

2.3.7.2 Current Entry Value

The current entry value takes a transaction with a policyholder rather than with another entity into account. Some of the Board members argue "that current exit value places too much emphasis on hypothetical transactions that rarely happen."[76] So the current entry value reflects more realistically transactions that might occur. Two versions of the current entry value can be distinguished:

- "The first version was defined as the amount that the insurer would charge a policyholder today for entering into a contract with the same remaining rights and obligations as the existing contract."[77] However, the IASB names some arguments against this version: it is not realistic that an insurer would sell new contracts with the same remaining exposure as the compared existing contract and there might be some loss in comparability. Moreover, the current price can be skewed by the insurer's risk portfolio adjustments.[78]

[73] DP - Part 1, p. 59
[74] cf. DP - Part 1, p. 59
[75] DP - Part 1, p. 59
[76] DP - Part 1, p. 60
[77] DP - Part 1, p. 60
[78] cf. DP – Part 1. p. 60

- “The second version of current entry value explored by the Board is the amount a rational insurer would charge a policyholder today for entering into a contract with the same remaining rights and obligations.”[79] This version regards an assumption of a rational insurer and is more objective in the pricing methodology. Nevertheless, it can be associated with the difference of putting the weight on the price as an evidence for the estimation of the risk margin. "However, this description is close to the definition of current exit value, differing only in how the margin is determined. Thus, the Board regards this second version not as current entry value but as one possible implementation of current exit value (described above as implementation A)."[80]

So this might lead to the conclusion that there is very little variation between the current exit value and the current entry value. Additionally, it seems like there is no thin line bordering those two models.

2.3.7.3 Value in Settlement with the Policyholder

This model criticizes the assumption of a transfer of the liability in the current exit value model. It suggests "that it would be more appropriate to measure the liability on a basis that reflects the insurer’s intention to discharge its obligation by making contractually required payments to or for policyholders."[81]

2.3.7.4 Fair Value

The IASB is working on "Fair Value Measurement" methods. The ongoing project got to the stage of an Exposure Draft on June 30th 2009. It defines the fair value as follows: "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement

[79] DP - Part 1, p. 61
[80] DP - Part 1, p. 61
[81] DP - Part 1, p. 62

date."[82] However, it must be mentioned this definition does not give an idea of whether there is any communality with current exit value or not.

2.3.7.5 Embedded Value

Generally, the embedded value is common in some of the insurance markets. It is preferably used as an internal measurement. However, “a few, mainly British and Irish financial conglomerates, use embedded value measurements in their primary financial statements.”[83] The Board is stating the CFO Forums definition, because it created European Embedded Value Principles. “Embedded value (EV) is the present value of shareholders’ interests in the earnings distributable from assets allocated to the covered business after sufficient allowance for the aggregate risks in the covered business.”[84] It consists of three components:

- “Free surplus allocated to the covered business;
- Required capital, less the cost of holding required capital;
- Present value of future shareholder cash flows from in-force covered business.”[85]

However the Board is not convinced whether the embedded value is an adequate measurement and names critics on the EV. It mainly points out that:

- There is a high diversity of approaches
- EV is determined on a single best estimate which does not reflect the range of outcomes
- Estimation in general is crude
- The discount rate might not reflect the risk and cost of capital in a proper way.
- There are some versions of EV which are not market-consistent[86]

[82] Exposure Draft - Fair Value Measurement, p. 13
[83] DP - Part 1, p. 63
[84] European Embedded Value Principles, p. 2
[85] European Embedded Value Principles, p. 2
[86] cf. DP - Part 1, p. 65

The IASB concludes that the current exit value is a more relevant measurement than the embedded value – especially in terms of market-consistency.

2.3.7.6 Unearned Premium

The unearned premium approach can to be used for the measurement of short term non-life insurance pre-claims liabilities.[87] "Subsequently, the insurer would measure the pre-claims liability at the unearned portion of that net premium." For the IASB the advantages of the unearned premium approach are the existence of models already using it, consistency with the revenue recognition project (jointly with FASB) and the additional information of important ratios for users.

2.3.7.7 Allocated Costumer consideration

This model stems from the joint project on revenue recognition in which the IASB and the FASB are exploring two models, namely the fair value model and the customer consideration model.[88] "In the customer consideration model, they are initially measured by allocating the amount of consideration received from the customer."[89] However, the IASB does not really propose this model rather than mentions it, because it is processed in another project. "[…] the customer consideration model is unlikely to be suitable for insurance contracts unless it is developed in a way that involves explicit current estimates of the cash flows, the time value of money and explicit margins for risk and, if applicable, other services"[90]

2.3.7.8 Summary – Measurement Models

Besides the favoured measurement model the Board suggests several others. The preferred model is the current exit value, which is still discussed and criticized by the

[87] cf. DP - Part 1, p. 65
[88] cf. DP - Part 1, p. 66
[89] DP - Part 1, p. 66
[90] DP - Part 1, p. 67

Board. The models differ in how the risk margin is taken into account. The DP refers to the premium charged and its role.

2.4 Policyholder Behaviour

In estimating future cash flows depend in many cases on whether a policyholder exercises specific contractual options.[91] Insurance contracts may contain an option for the policyholder to continue or re-establish an insurance contract. Especially if the execution of such an option leads to a benefit for the insurer the discussion "whether an insurer should recognise expectations of such benefits"[92] arises. The question is whether those benefits arise from an existing contract or from an existing customer relationship.[93]

2.4.1 Beneficial Policyholder Behaviour

In general, exercising the contractual option by the policyholder does not imply a benefit for the insurer. "In many cases, an insurer expects a net economic loss if one class of policyholders continue paying premiums and net economic benefits if another class of policyholders does so. […]An insurer expects net economic benefits if the expected future premiums exceed the resulting expected benefit payments to the same class of policyholders."[94] This customer relationship or the so called beneficial policyholder behaviour will bring an expected future gain. This can be the case for one class of policyholders but might be the opposite for another. How can this be possible if contracts are alike at inception? There are two possibilities:

- For legal, regulatory or other reasons the premium charged at the execution of the option is the same for both risk classes.[95]
- There is migration from one class to another and the contract requires the insurer to charge the same premium as at inception.[96] For this case the IASB gives an example which illustrates the effect of different approaches stated by the Board.

[91] cf. DP - Part 1, p. 70
[92] DP - Part 1, p. 70
[93] cf. DP - Part 1, p. 79
[94] DP - Part 1, p. 70f
[95] cf. DP - Part 1, p. 72
[96] cf. DP - Part 1, p. 72

2.4.2 *Example given by the IASB*

The IASB provides an example in brief in the main body of the DP and in detail in appendix G7. It illustrates the "[…] case in which an insurer expects net economic benefits from one class of policyholders and net economic losses from another class."[97] The difference arises from migrations from one class of policyholders to another.[98]

This simplified example leads to a solution in four different approaches. The main assumptions are:

- An insurer issues 10,000 life insurance contracts for an annual premium of 575.80 paying a death benefit of 10,000.
- In the beginning of year 1 all policyholders are healthy, 10% will become unhealthy by the end of year one.
- "The contract does not permit the insurer to change the premium after inception."[99]
- The lapse rate after year 1 is 10% for healthy and 1% for unhealthy. So there will be net economic losses for the group of unhealthy policyholders who remain paying the premium and benefits if healthy policyholders remain.
- For simplicity the time value of money, any risk or service margins and acquisition costs are not considered in this example.
- The estimated mortality rates are 5 % for healthy and 20% for unhealthy policyholders[100]

The unhealthy policyholders suffer a four times higher mortality rate than the healthy ones. As the insurer does not know which policyholders become unhealthy a higher premium can not be charged. To get an overview of the distribution of healthy and unhealthy policyholders Table 1 shows how the number of contracts changes after year 1 and at the end of year. Furthermore the cash flows related to the premiums and compensations are illustrated in a separate column.

[97] DP - Part 1, p. 73
[98] cf. DP - Part 1, p. 73
[99] DP - Part 1, p. 73
[100] cf. DP - Part 2, Appendix G7, p. 49

	Date	Number of Contracts	Cash Flows
Total at Inception	1.1.Y1	10,000	5,758,000
Deaths	in Y1	- 500	- 5,000,000
Migration to Unhealthy	in Y1	950	
Lapses of Unhealthy		-10	
Healthy		8,550	
Lapses of Healthy		-855	**Profit in Y1**
Total		8,635	**758,000**
Unhealthy	1.1.Y2	940	
Healthy		7,695	Premium received
Total		8,635	4,972,000
Deaths of Unhealthy	inY2	-188	
Deaths of Healthy	inY2	-385	Compensation paid
Total		-573	- 5,730,000
Existing Contracts	31.12.Y2		
Unhealthy		752	
Healthy		7,310	**Loss in Y2**
Total		8,062	**- 758,000**

Table 1: Distribution of Policyholders and related Cash Flows[101]

The example results in an overall profit or loss of nil as the premium is set to break even for all 10,000 contracts. The loss of year 2 is outweighed by the previous profit in year 1 (both in the amount of 758,000). The question in this example is which of the anticipated future cash flows of year 2 should be already recognized at the end of year 1. The IASB suggests in its DP four different approaches of how the future cash flows (premiums and compensations) should be taken into account.

2.4.2.1 Approach A

"Approach A excludes all future premiums, and death benefit payments that result from those premiums. In other words, it excludes all policyholder behaviour, both beneficial

[101] Own illustration cf. DP - Part 2, Appendix G7, p. 50

and unfavourable."[102] So both cash flows, the compensations paid and the premiums received of year 2 are not anticipated and recognized in year 1.

2.4.2.2 Approach B

Approach B refers only to the unfavourable policyholder behaviour. The cash flows related to the group of unhealthy policyholders are taken into account, because they reflect the unfavourable behaviour. The cash flows are as follows:

Future Cash Flows for Y2	**Contracts**	**Price**	**Cash Flow**
Premiums from Unhealthy Policyholders	940	575,8	**541,252**
Compensations for Deaths of Unhealthy	188	-10,000	**-1,880,000**
Net Future Cash Flow			**-1,338,748**

Table 2: Calculation of Net Future Cash Flow using Approach B[103]

The unfavourable policyholder behaviour results in a net future cash flow of –1,338,748. The earned profit of 758,000 would than become a loss of **- 580,748**, which will be very different illustration of the economic reality.

2.4.2.3 Approach C

This approach does not consider the lapses after year 1. This results in a bigger number of unhealthy policyholders. Table 3 shows the calculation of the net future cash flow with this approach.

Future Cash Flows for Y2	**Contracts**	**Price**	**Cash Flow**
Premiums from Unhealthy Policyholders	950	575,8	**547,010**
Compensation for Deaths of Unhealthy	190	-10,000	**-1,900,000**
Net Future Cash Flow			**-1,352,990**

Table 3: Calculation of Net Future Cash Flow using Approach B[104]

The assumption that the future cash flow should also include the contracts which will

[102] DP - Part 1, p. 74
[103] Own illustration cf. DP - Part 2, Appendix G7, p. 50
[104] Own illustration cf. DP - Part 2, Appendix G7, p. 50

lapse in the beginning of year 2 leads to a lower net future cash flow for year 1. The loss recognized would be even higher in year 1: 758,000 (profit from Y1 contracts) minus 1,352,990 (loss because of net future cash flow) results in a total loss of **- 594,990**.

2.4.2.4 Approach D

"Approach D includes all policyholder behaviour, both beneficial and unfavourable, relating to existing contracts."[105] This means by the end of year 1 the anticipated future loss of year 2 will already be recognized as liability. The total profit or loss for year 1 will be nil, because the price was set to break even within all 10,000 contracts. The only thing which is still questionable within this approach is whether the liabilities and assets should be stated separately for both groups or as a net liability.

2.4.3 Summary - Policyholder Behaviour

It is still in discussion whether expected benefits from policyholders' behaviour arise from the insurer's contractual obligations or from customer relationship.[106] "That distinction is important because:

- Customer relationships are intangible assets within the scope of IAS 38. Under IAS 38, internally generated customer relationships do not qualify for recognition as an asset.
- If the benefits arise from an existing contract, it may be appropriate to include them in one overall net measurement of the insurer's contractual rights and obligations. Conversely, it is normally more informative to present a customer relationship separately from the contractual rights and contractual obligations."[107]

Some Board members argue that the expected benefits are based on contractual obligations of the insurer. The following arguments point out their opinion:

- "The primary determinants of the cash flows are the contract itself and the

[105] DP - Part 1, p. 75
[106] cf. DP - Part 1, p. 79
[107] DP - Part 1, p. 79

policyholder's needs and preferences."[108]

- Both insurers and policyholders see contracts as a long-term obligation and right with an option to cancel and not as short-term obligation and right to resign.[109]
- If the price a market participant would be willing to pay for transferring the contractual rights and obligations is taken, it would contain not only the rights but also the customer relationship. However, it must be said that it would not be possible to split those two, since one by its own will not be transferred in any way.[110]

On the other hand the Board's preliminary view is that there is no contractual obligation for the policyholder to pay any further premiums. That would mean "the insurer's ability to derive benefits from policyholder behaviour arises from part of a customer relationship, not from the contract."[111]

3 The Comments on the First Half of the Discussion Paper

3.1 Introduction

3.1.1 The Comment Letters

The discussion paper includes a public invitation to comment. Comments were able to be submitted within six month after issuance. There were 162 comment letters in total, amongst which some were actually submitted after the closing date. However, this paper does not pay attention to whether the comments were made in time or not, because it should only reflect the submitters' opinions and not in any way their comments' effects on the later exposure draft. The IASB's official count of comment letters is at 158.

[108] DP - Part 1, p. 79
[109] cf. DP - Part 1, p. 79
[110] cf. DP - Part 1, p. 80
[111] DP - Part 1, p. 80

In the beginning of the work for this thesis there were only two figures: 162 CL containing 2.093 pages in total. The question was how to organize all these letters and how to make them "readable". The first intuition proved right in the very end. It was a process of identifying the submitter of the CL and finding out which kind of group the commenter belongs to.

3.1.2 Procedure of Grouping the Commenters

The procedure started with a data input into a table containing: consecutive number of the comment letter, number of pages, submitter, land of origin and - most importantly - the "Group". The column "Group" was a categorization of the commenters' point of view concerning insurance contracts. In the end of this process there were six groups: Insurers, Actuaries, Accounting Profession, Standard Setters, Supervisors and Financial Service Providers. 19 comment letters were of an origin which did not fit any group and therefore were categorized “Others”.

Of course the groups differ in number of letters and total pages. Especially the group “Insurers” is much more extensive than the others. The following table provides an overview of the total number of the comment letters and the amount of pages.

Group	CL	Pages
Insurers	54	586
Actuaries	14	336
Accounting Profession	27	327
Standard Setters	19	348
Supervisors	7	121
Financial Service Providers	21	217
Others	18	158
Total	**162**	**2,093**

Table 4: Overview of the comment letters

As a next step the country of origin was analyzed. The key findings of this analysis should be mentioned at this point. The country with the largest amount of comment letters is England with a total of 42 CLs. Second are the USA with 21 CLs followed by Australia with 14. Canada is ranked at place four with ten letters while the remaining letters are spread among Germany, France, Japan, Belgium, New Zealand, Netherlands, Sweden, Switzerland, Bermuda, Austria, Denmark, Ireland, Korea, Spain, Brazil, China, Italy, Malaysia, Mexico, Norway, Scotland, Singapore and Thailand.

3.1.3 The Groups of Commenters

3.1.3.1 Insurers

It is quite obvious that the group of insurers is the most extensive one. Apparently insurers are most interested in the development of an international accounting standard covering insurance contracts. 26 out of the total 54 commenters referred to at least seven of the nine precise questions. Seven commenters answered just a few (two to six direct responses) of the questions. The remaining 21 CL did not refer to any precise question. These CL were also limited in the number of pages.

3.1.3.2 Actuaries

The actuaries are very important users of financial reports of the insurance industry. 15 comment letters were submitted by commenters who can be categorized into the group of “Actuaries”. Seven letters referred to all of the precise questions stated in the discussion paper. Five of the submitters limited their responses to between four and eight direct responses. The remaining three CL contained only general comments without reference to any precise question.

3.1.3.3 Accounting Profession

This group consists of chattered public accountants, auditors and other institutions which have a general interest in the development of new accounting standards. Amongst other well known companies all big four auditing companies are represented in this group. The group had a noticeable number of direct responses to the precise questions stated. 18 out of 28 referred to all questions stated. Two comment letters answered either eight or five questions and seven CL had no direct responses to the questions. Those seven were also limited in their number of pages which therefore limited their impact on the group's overall opinion.

3.1.3.4 Standard Setters

There are also an interesting number of comment letters submitted by, mostly national, standard setters. This group was formed in order to find out the input of standard setters on a non-international basis. In this group the response to the precise questions was even better than in the group "Accounting Profession". 16 out of 19 comment letters referred to all questions or at least to eight questions. Only two comment letters had a limited number of responses (five and six answers) and one letter had just general comments.

3.1.3.5 Supervisors

The group of supervisors is the smallest in terms of amounts of pages and number of comment letters. Nevertheless, supervising authorities are very important users of financial statements. Only three out of the total of seven comment letters referred directly to the precise questions stated in the discussion paper. What has to be mentioned here is that only two submissions came from supervisors of the insurance industry while the rest was from supervisors of the financial industry or other authorities.

3.1.3.6 Financial Service Providers

Not only insurance companies show interest in the development of an insurance standard, also other financial service providers commented on the DP. This group consists of banks, rating agencies and other financial institutions. The group is in its extent the second smallest one after the "Supervisors". Ten comment letters stated comments to all questions, one referred to seven. Five letters had limited reference of either one or two direct responses. The remaining five comment letters included no direct answers to the questions stated.

3.1.3.7 Others

The remaining comment letters, which could not be categorized, were combined in this group. Amongst others this group includes submissions by scientists, companies of other industries than the insurance industry or private persons. Overall there were 18 CL in this group whereof five covered all nine questions and three commented either on six or seven questions. One CL only referred to two precise questions and the remaining nine CL included just general comments.

3.2 The Commenters' Views on Recognition and Derecognition

3.2.1 Question 1

Should the recognition and derecognition requirements for insurance contracts be consistent with those in IAS 39 for financial instruments? Why or why not?

3.2.2 Insurers

Question 1 was answered by slightly more than half of the submitters of this group. Amongst the respondents the opinions on recognition and derecognition were relatively controversial. After splitting the group into proponents and opponents the outcome could be quantified. In general 17 commenters agreed and 14 disagreed with the IASB's proposal of consistency between the requirements for insurance contracts and for financial instruments. However, most submitters either proponents or opponents require the IASB to provide more detailed guidance on this topic in the exposure draft.

The group of the proponents can be divided into two types. Six CL completely agree to the proposal without mentioning any concerns. One of the submitters even simply answered: "Yes."[112], without any other comment. The remaining eleven supporters

[112] CL 87, p. 2

stated several concerns. Especially the lack of guidance on which event would mark the time of becoming party of an insurance contract was criticised. Most of the supporters prefer the recognition of an insurance liability when the risk commences. Furthermore, some note that there would be a change in the existing accounting practice, which will lead to an "[…] extensive revision of the existing accounting systems and procedures […]."[113] However, all of them generally support consistency between the recognition criteria of insurance and financial contracts.

The opponents of the IASB's recognition and derecognition proposal mainly stated that in their point of view there are fundamental differences between those two types of contracts. For the Group of North American Insurance Enterprises "the IAS 39 recognition and derecognition criteria would not provide appropriate guidance for all of the unique situations associated with life and non-life insurances"[114] Most of the opponents want the recognition and derecognition criteria to be separated from IAS 39. Furthermore, there is a request for "[…] more detailed analysis and discussion of current practises.[…]"[115], before the IASB publishes any criterion in its exposure draft.

Finally, it can be stated that in the group of "Insurers" there is a quite high level of uncertainty, even amongst the supporters of the proposed criteria. Many are concerned about practical issues and want to have more clarity in the exposure draft.

3.2.3 Actuaries

Eight out of the 13 commenters categorized as actuaries commented on the matter of recognition and derecognition. Almost all of those commenters agreed that the recognition and derecognition should be consistent with the criteria of IAS 39. Only the American Academy of Actuaries explicitly disagrees: "IAS 39 is not a suitable model for recognition and de-recognition of many insurance contracts."[116] However, almost all of the supporters have practical concerns.

This group, in general, was most precise about the different points in time when an

[113] CL 20, p. 1
[114] CL 102. p. 7
[115] CL 127. p 9
[116] CL 77, p. 3

insurance contract can be recognized. The commenters of this group mainly name three points in time when an insurance contract incepts. The IAA (International Acturial Association) defines those points of time as follows: "(1) the date the contract is agreed to by the affected parties, (2) the date the premium is paid, and (3) the date of insurance risk contract inception, usually the effective date of the contract."[117] Also other members of this group define these points in time more or less the same way. Sometimes they are named differently, but there is no difference in practice. Usually these events are at different points in time.

Nevertheless, the difference of these three dates makes defining the right time of recognition difficult. Some suggest that the IASB should provide more detailed guidance on those different dates. For example the Accountants' and Actuaries Liaison Committee states: "We recommend that the IASB provide detailed guidance in this area given the complexity and nuances associated with the insurance contracts."[118] Others, as the AVÖ (Austrian Acturial Association) suggest a compromise in the definition. "For recognition purposes IAS 39 and IFRS 4 should be consistent, that is a contract has to be recognised when it is agreed despite of a later technical beginning. But for measurement purposes an insurance contract which is agreed but contains no technical coverage at the accounting date should be valued with zero."[119] For the AVÖ the technical beginning is the date when the insurance coverage starts.[120]

To generalize it can be said that the group of actuaries agrees that the recognition and derecognition should be consistent with the criteria of IAS 39, but they have many concerns about the practical application. They want the IASB to provide more guidance in which the peculiar characteristics of insurance contracts should be considered.[121]

3.2.4 Accounting Profession

About 70 % of this group responded to question 1. The total of 20 direct responses splits into eleven supporters, seven asking for more detailed guidance and two disagreeing with the proposal.

[117] CL 97, p. 3
[118] CL 13, p. 1
[119] CL 74, p. 4
[120] cf. CL 74, p. 4
[121] cf. CL 78, p. 2

Most of the supporters of the proposal do not mention any concerns. Two of them have although have very different ones. On the one hand Ernst & Young Global Limited requires further consistency with IAS 18 Revenues and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. They want the Board to integrate the measurement guidance into the recognition & derecognition criterion. This very unique comment states that "the key challenge for the Board will be to link what needs to be recognised with how the measurement of an insurance contract is consistent with other standards […]"[122] On the other hand the Institute of Accounting Profession in Sweden states "that financial instruments and insurance contracts should as far as possible have the same recognition, measurement and presentation principles unless deviation can be justified from differences between the types of contracts […]"[123] So they support the IASB's view but do not really make their own point clear.

Others are more precise about their concerns. For example Financial Service Accountants Association Limited notes, that the impacts of the IAS 39 application on insurance contracts need to be well explained in the ED.[124] In general some of the commenters want to have more clarity and require more detailed guidance in the future ED. The two commenters disagreeing with the IASB's proposal want insurance contracts to be recognized different from financial contracts.

3.2.5 Standard Setters

Almost every commenter in this group stated an opinion on the topic of recognition and derecognition. Only two of the 19 CL did not comment on this aspect. Amongst this group the opinions were controversial. Eight commenters agreed with the IASB proposal, further six did not directly disagree but had concerns. Finally, a group of four commenters disagreed on the IASB's proposal.

Even amongst the supporters there are some concerns. The Norwegian Accounting Standards Board notes: "[…] there are several important aspects which needs to be

[122] CL 122, p. 8
[123] CL 133, p. 3
[124] cf. CL 7, p. 1

considered before the proposal in the DP should be implemented […]"[125]

Some others want the IASB to clarify whether an insurance contract can be seen as a service contract or a financial contract or a combination of both. Especially within this group it does not seem to be clear in which way insurance contracts should be treated for further comments. Many statements are written like it is not clear for the commenter what the nature of an insurance contract should be. For example the Dutch Accounting Standards Board states: "Before entering into the discussion on recognition and derecognition, it is important to decide on the nature of an insurance contract […]"[126] Others just state that an insurance contract can be seen either as a service or a financial contract and do not mention their opinion.

The ones disagreeing mainly see insurance contracts as service contracts and see no reason for the two standards to be consistent with each others. The Brazilian Accounting Pronouncements Committee states its view: "[…] an insurance contract, in its economic substance, is a service contract."[127] Furthermore, the Australian Accounting Standard Board, the most extensive submitter within this group, suggests "that an insurance contract should be recognized when the insurer has agreed to accept risk and the policyholder has agreed to transfer risk."[128]

Nevertheless, this group leaves some points open and advises the IASB to work out more detailed information on the nature of insurance contracts and to clarify the difference of possible points of time. One reason for those advices might be that the members of this group see themselves in the position of the IASB.

3.2.6 Supervisors

Since this group was not very extensive there were only three letters referring explicitly to the question of recognition and derecognition. It has to be mentioned that these three comment letters created the opinion of this group. Nevertheless, regarding the recognition and derecognition of insurance contracts, this group is controversial. Two

[125] CL 47, p.3
[126] CL119, p. 6
[127] CL 73, p. 3
[128] CL 109, p. 23

commenters think the IASB's requirements stated in the DP will lead to a change in the current practice. Because of this reason the IAIS (International Association of Insurance Supervisors) is not in favour of the recognition and derecognition of insurance contracts when it comes to practical application. Also the "CEIOPS" (Committee of European Insurance and Occupational Pensions Supervisors) "doubts that the benefit of recognition in accordance with IAS 39 would be sufficient to outweigh the costs and practical issues surrounding such a significant change to current practice."[129]

On the other hand the "IFRS Monitoring Panel in Thailand" completely supports that the recognition and derecognition should follow the IAS 39.[130] They do not mention any practical problems at all. The rest of the supervising authorities had no comments on the question on recognition and derecognition. They are authorities of the non-insurance industries and want to point out several things, not only affecting the insurance industry but also the banking or other financial industries.

3.2.7 Financial Service Providers

More than the half (twelve out of 21) of the members of this group answered the question regarding the recognition and derecognition. This group has its own view on the nature of an insurance contract. An insurance contract is rather seen as a financial instrument than as a service contract. This view is expressed in almost every comment. Six out of the eleven answering the question on recognition & derecognition want it to be in line without any concerns. One commenter has concerns such as practical problems regarding the implementation and the collection of relevant data.[131] Another CL agrees to the point of consistency but recommends "that detailed, insurance specific, criteria and guidance should be incorporated into any future accounting standard on insurance contracts."[132] The BNP Paribas Group is less supportive and wants the IASB to define "principles for insurance contracts in the standard on insurance contracts, rather than making a cross reference to IAS 39."[133] Finally there are two commenters who completely disagree on this topic. Both want the guidance on insurance contracts'

[129] CL 143, p.8
[130] CL 159, p.1
[131] cf. CL 26, p. 2
[132] CL 44, p. 1
[133] CL 157, p. 1

recognition separated from IAS 39. Hartford Financial Services Group Inc. further wants derecognition to be separate. The suggestion was that insurance contracts should be recognized on the effective date and derecognized when the insurer has been legally released from liability.[134]

To summarize it can be said that this group supports the consistency between the recognition and derecognition of insurance contracts and financial instruments. Nevertheless three commenters have concerns and want less or no consistency between the exposure draft and IAS 39.

3.2.8 Others

In this group there were six direct responses, which split into four supportive ones and two not agreeing with the proposed recognition and derecognition criteria. Amongst the proponents there was one very unique statement. The combined submission of three interest groups of French companies (ACTEO, MEDEF & AFEP) refers to the application guidance of IAS 39 (AG 35b). The interpretation of the submitters is that no "[…] liability should be recognized before one or the other party in the contract has started to perform […]"[135] This interpretation means that the recognition criteria of IAS 39 and the application guidance would result in recognition of insurance contracts at the time insurance coverage starts.[136]
Nevertheless, there were two other submissions which required insurance contracts to be explicitly recognized at the inception date.[137]

[134] CL 76, p. 5
[135] CL 91, p. 3
[136] cf. CL 91, p. 3
[137] CL 42, p. 1

3.3 The Commenter’s Views on the three Building Blocks

3.3.1 Question 2

Should an insurer measure all its insurance liabilities using the following three building blocks:

(a) explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows,

(b) current market discount rates that adjust the estimated future cash flows for the time value of money, and

(c) an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin)?

If not, what approach do you propose, and why?

3.3.2 Insurers

Question 2 had the largest number of direct responses. In total there are 33 responses out of 55 CL. However, there are different points of view from the submitters’ perspectives. Some commented in a general aspect of the insurance industry, but others made their point either as life insurers or non-life insurers. Due to these differences in the comments regarding this specific character the group of insurers are split for the further treatment regarding this question. The outcome results in three subgroups: nine CL are defined as general insurance industry submissions, 16 as non-life insurers and eight as life-insurers.

3.3.2.1 The General Insurance Industry’s View

Nine comments are made by the general insurance industry consisting of interest groups, underwriters and also one insurance company providing both life and non-life insurance products (American International Group Inc.). The comments are very supportive of the proposed measurement model. Nevertheless, they state several specific concerns. These concerns mainly point out problems with the use of market-consistent data and the nature of a service margin. Regarding the use of market-consistent data some require the IASB to provide further definition what kind of data specifically is meant to be market-consistent. Others require that the use of entity-specific data should be permitted, where market-consistent data is not available or too costly to be gathered. Almost all submitters note concerns about the use or the nature of a service margin. For example the London Market (Specialty Business) Interest Group states: “There is not enough guidance in the DP to explain fully what is meant by the service margin.”[138] Many do not know what other services, besides investment management services[139], would justify the use of a service margin. Therefore it can be concluded that there is high demand for further guidance on the nature of service margin.

Nonetheless, this group contains three submissions which answer this question separately for life and for non-life insurers. These three CL made clear that “[…] this question should be answered separately for life and non-life insurance contracts.”[140] As a result these submissions will be taken into consideration for both non-life and for life insurers’ comments.

3.3.2.2 The Non-Life Insurers’ View

The majority of this subgroup generally agrees with the proposed measurement model for non-life insurance contracts. Nevertheless, they have several further concerns. Besides critics already mentioned by the general insurance industry the subgroup of non-life insurers states one further point. Especially the discounting of non-life insurance liabilities does not seem to be supported by many commenters. The most extensive submission amongst insurers is from the Group of North American Insurance Enterprises (GNAIE). It stated: “Historically, the time value of money has not been explicitly incorporated in the measurement of non-life reserves or into performance measures used for non-life insurance contracts […]”[141] One other submission includes a comment that discounting would be inappropriate for non-life liabilities. The reasons

[138] CL 150, p. 9
[139] cf. DP Part 1, p. 55
[140] CL 102, p. 10
[141] CL 102, p. 15

stated are: (1) it would result in less objective, reliable and decision-useful financial reporting; (2) the inherent characteristics of non-life products would not allow a reliable measurement and (3) the costs of practical implementation would exceed the benefits for users of non-life insurers' financial statements.[142] These opponents suggest that another measurement model for non-life insurance contracts should be applied under a finalized IFRS. Five commenters explicitly refer to the U.S. GAAP requirements. However, these submitters are of US American origin which might make their view biased.

3.3.2.3 The Life Insurers' View

Besides the general remarks also made by the general insurance industry's view, this subgroup expresses concerns regarding the second building block. However, this topic is also controversial amongst the life insurers. Some agree with the IASB proposal to use a current risk-free market discount rate others disagree. More interesting are two commenters who mention problems in connection with the long-term characteristics of life insurance contracts. Specifically, the GNAIE criticises that "[…] a risk free rate in developed markets typically does not extend beyond 20 to 30 year durations, and a substantial portion of the insurance cash flows to be discounted are typically beyond these durations."[143]

Furthermore two other commenters recommend "[…] that the rate used to discount future cash flows be based on the actual investment returns anticipated by the insurer over the life of the contract."[144] To finalize it can be said this subgroup's submissions provide very specific inputs for the IASB to provide further guidance on discounting.

3.3.3 Actuaries

The responses by the actuaries are quite supportive regarding the three building blocks. The number of comments on this question is relatively high. Eleven out of 14 commenters directly respond to question 2. In general it can be said, that there are no

[142] cf. CL 82, p. 3
[143] CL 102, p. 14
[144] CL 34, p. 4

opponents who strongly disagree with the proposed model. However, the group of actuaries express several concerns, especially regarding market consistency and the definition and use of a service margin.

Some state concerns that the use of only market-consistent data will result in non-reliable and subjective reporting. Especially regarding the costs of administrating insurance contracts will lead to confusion as market participants are different in cost efficiency. The less efficient insurer would then recognise lower costs than occurring in reality and vice versa. Furthermore, there are some requests that the IASB should include disclosure requirements for the estimates of the cash flows, either market-consistent or entity-specific ones. The Actuarial Society of South Africa notes that "the use of non-entity specific service cost estimates could lead to incorrect conclusions as to the profitability of the business."[145]

Again the use and determination of the service margin is questioned by many submitters of this group. Some note that it would not be appropriate to determine a service margin separately from the risk margin. Others, such as the Austrian Acturial Association (AVÖ), do not even understand the purpose of a service margin. In its submission it states: "We are not able to comment on the service margin because we do not understand this concept."[146]

In general it can be concluded that the group of actuaries is supportive with the three building blocks concept, but in the group's view work still needs to be done by the IASB to clarify the points criticised.

3.3.4 Accounting Profession

The response to question 2 is noticeable for this group. 20 out of 27 CL respond directly to it. Almost throughout the whole group the same points in discussion come up. The submitters have major concerns regarding the observable market data, the risk-adjustment of the discount rate and again the nature of the service margin.

[145] CL 30, p. 4
[146] CL 74, p. 5

This group seems to be in the very same opinion on the three building blocks. Most of the submitters require that the use of entity-specific data should be permitted, especially where observable market data is not available. Many not that a market for transferring insurance contracts barely exists.

Furthermore, many disagree with the use of a risk-adjusted discount rate. The main argument against it is that the risk would be taken into account by building block c) (Margins). Others do not directly disagree, but are not satisfied with the current definition and require the IASB to provide further guidance on the objective of an explicit adjustment for liquidity and risk.[147]

Finally, also this group has some problems with understanding the purpose of a service margin. Some suggest that there should only be one explicit margin rather than a risk and a service margin which are separated. Others want the IASB to provide further guidance and explanations. It can be concluded that in general this group has the same basic opinions and concerns as the two others before.

3.3.5 Standard Setters

This group has no major critics on the three building blocks proposal by the IASB. Furthermore no major concerns can be found. The group only makes further suggestions and proposals to provide a less flawed standard. The suggestions require further work for the IASB on permitting the use of entity-specific data and the service margin, commented on by every single group.

Nevertheless, one peculiar CL has to be mentioned at this point. The Accounting Standards Board of Germany proposes a two building block model, "[…] the best estimate of insurance liabilities incl. risk margin and the profit margin included in the insurance contract."[148] Contrary to the IASB's proposed model this one supports the so called 'ultimate fulfilment value'.[149] It is defined as: "amount that would be paid to fulfil the liability by performance in the future and discounted at the applicable current

[147] cf. CL 53, p. 8
[148] CL 141, p. 5
[149] cf. CL 141, p. 4

market interest rate at the measurement date."[150] The main argument in this submission against the current exit value and the three building blocks model is that measurement "[…] should not be determined on the basis of hypothetical transfers of such liabilities as this would not faithfully represent regular insurance business."[151] Entity-specific data shall be used for non-financial variables. However, this new proposal is not really an invention of a totally new measurement approach. After having a closer look it emerges that the IASB's three building blocks were combined into the first building block. Only the additional inclusion of the second building block: 'Assumed profit margin contained in the insurance coverage component of an insurance contract'[152] causes a difference. Nevertheless, the commenter's proposal is the only peculiar detail to be mentioned by this group.

3.3.6 Supervisors

The group of supervisors is very supportive in regard to the three building blocks. All respondents support the proposed approach. However, there exist some concerns. One submitter encourages "the IASB to include requirements for separate disclosure of the current estimate and the margin."[153] Furthermore, a commenter suggests more guidance on the definition of the contractual cash flows, the exclusion of entity specific cash flows and the service margin.[154]

Finally one further commenter has concerns about the use of current discount rates in emerging markets. Due to a lack of breadth and depth of these markets the discount rate might be very volatile. As a result there would be a fluctuation of the insurance liability. Nevertheless, there are no major concerns stated by the group of supervisors.

3.3.7 Financial Service Providers

Regarding the question about the three Building Blocks this group provides fifteen responds. In general most of the commenters support the proposed approach. Ten

[150] CL 141, p. 4
[151] CL 141, p. 4f
[152] cf. CL 141, p. 13
[153] CL 148, p. 7f
[154] cf CL 143, p. 8

explicitly state that either in theory or in general they agree with the overall principle of this approach.

Apart from all others the Bank of Ireland suggests that: "In the absence of the ability to arrive at a consensus regarding the detail, an established embedded value framework, for example Market Consistent Embedded Value should be permitted."[155] Nevertheless it has limited further comments and for this reason the comment is neither very meaningful nor representative for the whole group. However, the group as a whole has specific concerns, especially regarding the reference to market based data, the purpose of the service margin and the term "contractual cash flows".

Some argue that there is a lack of liquid markets for insurance liabilities and for that reason the reference market based data would be inappropriate.[156] For example the BNP Paribas Group requires that the final standard should address this problem and further suggests "[…] a mix of the following sources of data that would be relevant to use […]"[157]: market based, portfolio specific and entity-specific data.[158] Further others mention concerns about the use of non-entity specific data, which would not represent the reporting entity's cost structure. More or less efficient entities would use the same estimates for the servicing costs, which would not provide reliable and relevant information to users.[159] "If non-entity specific servicing costs are used, as the more efficient insurer will recognise a higher liability than the inefficient insurer."[160] Finally the suggestion of the FirstRand Banking Group is to use primarily entity-specific cash flows, which are later tested against market observable data as an overall reasonableness test.[161] It can be concluded that also amongst this group the use of only non-entity specific data is discussed in many of the submitted comment letters.

Additionally many commenters state that the purpose and the definition of the service margin as described in the DP are unclear. For example, AMP Limited wants the IASB to define more clearly "the purpose of the service margin and the nature of other

[155] CL 50, p. 1
[156] cf. CL 157, p. 2
[157] CL 157, p. 3
[158] cf. CL 157, p. 3
[159] cf. CL 72, p. 3
[160] CL 72, p. 3
[161] CL 72, p. 3

services they expect to be included."[162] As the Board only provides one explicit example for a service margin in the DP some require further examples to understand the purpose. Furthermore, as also in other groups, the financial service providers are concerned about the definition of 'contractual cash flows'. Many commenters think that the definition is too narrow and would exclude insurance related cash flows which reflect the economic substance of a market transfer transaction.[163]

3.3.8 Others

The group of "Others" has six out of eighteen direct responses to question 2 and the opinions can be summarised quite easily. All commenters agree with the IASB's measurement proposal but some state concerns regarding the service margin and the use of entity-specific data.

3.4 The Commenters' Views on the Guidance on Cash Flows and on the Risk Margin

3.4.1 Question 3

Is the draft guidance on cash flows (appendix E) and risk margins (appendix F) at the right level of detail? Should any of that guidance be modified, deleted or extended? Why or why not?

3.4.2 Insurers

The response to this question is almost the same as in question 2. For this reason there will be no further illustration of the responses by any single group in this and the following subchapters (3.4.2 – 3.4.8). However, the responses of this group are not split into the subgroups used for illustrating question 2 in 3.3.2.

[162] CL 44, p. 3
[163] cf. CL 110, p. 4

The responses to question 3 are very controversial. Nevertheless, the opinions differ only in nuances. Most of the commenters are not satisfied with the level of guidance provided by the IASB in the DP. The larger part of the submissions requires further detailed guidance on the measurement, which should not provided by the IASB. Most of the insurers want the IASB to leave the development of further guidance up to the actuarial profession. Only a few others want it to be developed in practice by the insurance industry itself and a few others even note "that further details need to be developed in each jurisdiction based on specific circumstances."[164] So the main discussion amongst insurers is about by whom further detailed guidance should be provided. The group seems to agree on the need of further guidance.

To conclude it can be stated that the insurers want the IASB to provide a principle-based guidance and to leave the detailed development of the measurement attributes up to the professions suggested above.

3.4.3 Actuaries

Within this group there are mainly two different opinions. A few (four out of eleven) commenters think the guidance provided by the IASB is at the right level of detail. However, on the other hand the larger part is of different opinion. Most of the actuarial profession note that the final standard should provide principle based guidance and not incorporate specific measurement guidance.[165] The suggestion is that further detailed guidance should then be provided by the actuarial profession. Many commenters state that the current guidance is too prescriptive. Furthermore one commenter criticises "[…] that it is beyond the scope of the proposed accounting standard to provide detailed guidance on actuarial calculations."[166] The International Actuarial Association argues for leaving the development of measurement attributes to the actuaries and not to incorporate it into an accounting standard. The submission states: "This will tend to encourage both the development of new and improved methodologies in the future and

[164] CL 69, p. 5
[165] cf. CL 97, p. 8
[166] CL 13, p. 4

also the adaptation of existing ones to deal with new types of contracts."[167]

Furthermore, some commenters criticise specific points, such as the incorporation of all available information, the prohibition of entity-specific cash flows and that the identification of all possible scenarios would be impractical. [168]

The actuaries' view is that the IASB provides too much actuarial guidance, which should be left to the actuarial profession itself. Nevertheless, the general feedback sounds positive and it seems as if the actuaries are quite satisfied with the work done by the board so far.

3.4.4 Accounting Profession

As in the previous groups the accounting profession is also not of one overall opinion as to the level of guidance provided. The majority (eleven out of 21) of the commenters state that they think the guidance provided is at the right level of detail. Just a few (four submissions) recommend that some parts should be deleted while on the other hand a couple more commenters (six submissions) think more detailed guidance is needed.

Apart from the general satisfaction or dissatisfaction with the level of guidance, the most discussed point was the eight listed "Approaches to determining risk margins"[169]. Many state that the list could implicate that these techniques are favoured by the IASB and any other approach would be inferior. Some note that the existence of such a list would lead to confusion and should be left to the actuarial standards and the industry's practice. It is peculiar that this point is criticized by not only the ones who think the guidance is at the right level, but also the ones who state the level would be either too low or too high. It seems like the accounting profession is not happy at all with the IASB providing any guidance on the approaches to determining the risk margin.

[167] CL 97, p. 8
[168] cf. CL 77, p. 9
[169] DP – Part 2, p. 36 (F9)

3.4.5 Standard Setters

The standard setters widely favour the level of the proposed guidance. Within the group there are almost no commenters who are dissatisfied with the by the IASB provided guidance on cash flows and the risk margin. However, some suggest slight changes to the appendices E and F. As this group only mentions these very detailed suggestions, the following paragraph states the most significant ones.

One commenters requests that the IASB "[…] should clarify whether each building block should be determined separately and provide guidance to ensure that the effects of the different building blocks are not duplicated."[170] Another submission criticises that "[…] a number of other areas in the appendix contain simple tick lists of what may or may not be included, for example paragraph E24 gives a list of relevant cash flows that may be included in the calculation. We believe in providing such lists the IASB is in danger of providing a tick list of rules for constituents."[171] Finally the Austrian Financial Reporting and Auditing Committee (AFRAC) states: "We feel there is still too much room for varying interpretations."[172] Furthermore, this submission points out that "the liability adequacy test is not described in enough detail in this respect."[173]

It seems as if this group largely supports the proposed guidance and wants to give the IASB a few small hints to develop a well developed guidance in the standard.

3.4.6 Supervisors

The three commenters forming the group of supervisors have very different responses. The CEIOPS states the problems inherent with the use of non-entity specific data, which actually refers more to question 2, but is treated with regard to this question. The two other commenters, the IFRS Monitoring Panel in Thailand and IAIS agree on the point that the guidance should be extended, but differ in their view on who should provide that guidance. The IFRS Monitoring Panel does not explicitly state who should provide further guidance. However, the IAIS notes "[…] that the actuarial profession

[170] CL 151, p. 7
[171] CL 22, p. 5
[172] CL 85, p. 6
[173] CL 85, p. 6

has a significant part to play in developing guidance […]"[174] Furthermore the IFRS Monitoring Panel demands "[…] more explanations and illustrative examples […]"[175] and in general wants a more illustrative guidance.

3.4.7 Financial Service Providers

In this group the opinions are somehow balanced. Four commenters state that in their view the level of guidance is at the right level. Five others note that it would be too lengthy, comprehensive and excessive in practice or provides more detail than necessary. However, none state that the level should be extended. Two other commenters do not really give a statement on the level of guidance, but state remarks on specific points in discussion. One of those two states that: "It is not clear whether or not the IASB expects that all variables impacting estimates of future cash flows be reassessed at each reporting date."[176] Furthermore, the group contains one peculiar comment letter, which focuses on the incorporation of future tax payments. Paragraph E25 (e) of the DP excludes income tax payments which creates another accounting mismatch. The commenter points out that for participating business the future benefits payable to the policyholder depend on the net investment income from the underlying assets.[177] "As this future income has yet to arise, it does not give rise to a tax liability under IAS 12 and so it needs to be included in the cash flows used to determine the resulting insurance liability […]"[178] The commenters' recommendations in for this problem is that the IASB should "[…] make a specific exemption to allow post tax estimates of future cash flows […]"[179]

Overall the group does not views differing very much from others, but the one submission referring to the future income tax issue raises a new issue not yet discussed in any other comment letter.

[174] CL 148, p. 9
[175] CL 195, p. 2
[176] CL26, p. 3
[177] cf. CL 44, p. 4
[178] CL 44, p. 4
[179] CL 44, p. 4

3.4.8 Others

The comments of this group are of little concern. The remaining comments just include general remarks, such as that the standard should be principles based and further detailed guidance should be provided by other bodies. In general all six direct responses are satisfied with the proposed level of guidance.

3.5 The Commenters' Views on the Calibration of the Risk Margin

3.5.1 Question 4

What role should the actual premium charged by the insurer play in the calibration of margins, and why? Please say which of the following alternatives you support.

(a) The insurer should calibrate the margin directly to the actual premium (less relevant acquisition costs), subject to a liability adequacy test. As a result, an insurer should never recognise a profit at the inception of an insurance contract.

(b) There should be a rebuttable presumption that the margin implied by the actual premium (less relevant acquisition costs) is consistent with the margin that market participants require. If you prefer this approach, what evidence should be needed to rebut the presumption?

(c) The premium (less relevant acquisition costs) may provide evidence of the margin that market participants would require, but has no higher status than other possible evidence. In most cases, insurance contracts are expected to provide a margin consistent with the requirements of market participants. Therefore, if a significant profit or loss appears to arise at inception, further investigation is needed. Nevertheless, if the insurer concludes, after further investigation, that the estimated market price for risk and service differs from the price implied by the premiums that it charges, the insurer would recognise a profit or loss at inception.

(d) Other (please specify).

3.5.2 Insurers

The proposed alternatives in question 4 are very controversially viewed by this group. Particularly, there seems to be no general preference of the group between alternatives a) and c). Eleven commenters stated their support for alternative a) and ten for alternative c). Furthermore there were three supporters of alternative b) and two commenters suggesting another alternative. Five commenters do not state whether they prefer any suggested alternative or not.

Nevertheless the alternative with the largest number of supporters was **alternative a)**. The reason stated most often in the comment letters is that this alternative does not give any possibility of a gain or loss at inception. Since at this point of the insurance contract no insurance or other service has yet been provided recognition of a gain would be inappropriate.[180] Furthermore the proponents state that "[…] the only point in life of an insurance contract where the inherent risk can be measured on an objective, market-validated basis is at issue.[…]"[181]

The second in the supporters ranking was **alternative c)**. Here too the main arguments are based on the profit at inception. However, differing from the supporters of alternative a) the supporters of alternative c) want the IASB to provide a standard that permits the recognition of a gain at inception. One submitter comments that "[…] profits at inception can arise under insurance contracts due to the reasons listed in paragraph 83."[182] In that paragraph of the DP the IASB lists cases that could result in a profit at inception (under Implementation B).[183] As profits can arise it should not be permitted to include those profits in the financial statement of an insurer. Further arguments of the proponents of this alternative are that:

- Any "[…] unexpected results will be further investigated to ensure that the resulting profit or loss is fairly reported."[184]
- Calibration of margins under alternative d) would be based on the latest available information and that the other proposed alternatives would lock in

[180] cf. CL 79, p. 9
[181] CL 102, p. 21
[182] CL 46, p. 6
[183] cf. DP – Part 1, p. 53
[184] CL 21, p. 5

information into the price charged.[185]

- The two other proposed alternatives “[…] require a liability adequacy test at inception which creates an additional burden for insurers.”[186]

The least supported alternative proposed by the IASB is **alternative b)**. Only three commenters are in favour of that alternative. These commenters note issues of the practical implementation of alternative c). Due to these practical problems they support alternative b) where in their view this practical problems do not arise.

The remaining seven submissions are split into two commenters referring to alternative d) stating another specified calibration model and five others which just mention the problems in discussion, but do not state their preference.

The two suggesting their own calibration model make exactly the same comments. These comment letters are from the European Insurance CFO Forum and the Association Internationale des Sociétés d’Assurance Mutuelle which “comments are broadly in line with and supportive of the points of view put forward […]”[187] in the European Insurance CFO Forum’s submission. Nevertheless their view is “[…] that the risk margin should be calculated independently.[…]”[188] The “[…] difference between the premium (less deduction of relevant acquisition costs) and the sum of the best estimate of liabilities and the risk margin is not insignificant and careful consideration is required in determining the appropriate presentation of this residual difference (which we have described as the initial profit margin).”[189] Due to this reason in their view “[…] initial profit margin should be presented in the liability section of the balance sheet and recognised as income in line with release from risk.”[190]

Overall the group is balanced in supporting either alternative a) or c). Only a few have different views, which are discussed in order to represent the peculiar views of this group.

[185] cf. CL 83, p. 3
[186] CL 46, p. 6
[187] CL 117, p. 1
[188] CL 127, p. 5
[189] CL 127, p. 5
[190] CL 127, p. 5

3.5.3 Actuaries

The actuaries provide a more concentrated view than other groups. Overall alternative c) is in favour of the majority of commenters. Six out of eleven comments prefer alternative c), one commenter prefers alternative b) and four do not explicitly state their preference for any proposed alternative.

The proponents of **alternative c)** state that there would be some cases in practice where an initial gain or loss could occur and therefore the permission of recognizing any profit or loss at inception would be inappropriate. Furthermore, the Canadian Institute of Actuaries suggests "[…] to require disclosure of the amount of profit or loss recognized at inception, and to develop appropriate standards regarding the level of risk margin."[191]

The commenter preferring **alternative b)** argues "[…] that under this alternative, gains at issue would be limited to very rare niche situations."[192] The other commenters not referring to any alternative discuss the problems of calibration in a more or less extensive manner, but do not mention their preferred alternative.

3.5.4 Accounting Profession

This group provides a more diffuse image of its opinion than the previous ones. Ten submissions are in favour of alternative c), seven of alternative c) and only one of alternative a). The remaining three do not state a preference of any proposed alternative.

For the accounting profession the most popular calibration model is **alternative c)**. Most of the proponents only stated their support for this alternative, but did not specify why. Some mention reasons like consistency with the overall measurement principle[193] or with the application guidance in IAS39[194] and even with the IASB's revenue recognition project.[195]

[191] CL 14, p. 6
[192] CL 77, p. 10
[193] cf. CL 113, p. 6
[194] cf. CL 125, p. 4
[195] cf. CL 49, p. 4

Alternative b) is supported by a smaller number of submissions. Some of the commenters see the advantage of this calibration model in the practical implementation. Nevertheless, the absence of good arguments for both alternatives leaves unanswered whether the proponents of these two alternatives have the same view or are they really in favour of different models. This conclusion can be made as both alternatives differ only in the degree to which the restrictions are seen.

The remaining submissions are not very meaningful, but are mentioned briefly in this paragraph. The submission supporting **alternative a)** argues that there should not be a profit at inception and therefore supports a). Furthermore, one commenter suggests that the risk margin should be established separately[196] and two commenters discuss the question but do not clarify their point.

Regarding this group's view it can be concluded that the commenters state different alternatives, but ultimately mean and prefer the same calibration solution in practice, namely a calibration that allows profit or loss at inception in some rare cases. When such cases occur there should be appropriate evidence to allow any profit or loss at inception.

3.5.5 Standard Setters

The standard setters are very common in their opinion on the preferred alternative. Nine out of seventeen prefer alternative c), compared to three supporting alternative b) and two supporting alternative a). Furthermore three submissions do not state their preference.

Alternative c) is the most favoured calibration model. However, there are just a few submissions which include specific arguments. The Korean Accounting Standards Board notes: "Each insurance company may set different premium to the identical insurance contract depending on its capability for product development, price competitiveness, and the relationship with other insurance companies."[197] In their view alternative c) takes into account this difference in prices for identical products. No other

[196] CL145, p. 12
[197] CL 115, p. 4

commenter comes up with other interesting arguments.

Nevertheless, three submissions prefer **alternative b)**. One commenter argues that "[…] in many cases the transaction price is the *only* verifiable information on which to base this estimate." [198] For this reason alternative b) is the most appropriate calibration model in this commenter's view. The other two do not mention further interesting arguments.

The proponents of **alternative a)** do not mention any argument for it. For this reason these submissions are not really representative at all. Furthermore, the three which do not prefer any alternative state either a dependence on which information is available or the calibration should be separate from the actual premium charged.

3.5.6 Supervisors

Included in the group of supervisors is one very peculiar submission, which will be discussed in more detail in this paragraph. The International Association of Insurance Supervisors (IAIS) does not state that it collectively supports any proposed alternative, but instead discusses all alternatives and states the members from the different countries supporting the single alternative. "While IAIS Members are unanimous that losses on inception should be recognised immediately, they differ regarding situations where a profit on inception might possibly arise."[199] For the recognition of a profit at inception three different approaches have emerged.[200]

- *Approach I* calibrates the margin in accordance with alternative (c). It is supported by insurance supervisors from the following jurisdictions: Belgium, Canada, Denmark, France, Guernsey, India, Japan, Spain and the UK.[201]
- *Approach II* is similar to Approach I, except that the calculated profit would be deferred as a liability and released to the income statement over the lifetime of the contract. This approach is supported by supervisors from: Australia, Germany, Italy, Poland, and Switzerland.[202]

[198] CL 22, p. 6
[199] CL 148, p. 11
[200] cf. CL 148, p. 11
[201] cf. CL 148, p. 11f
[202] cf. CL 148, p. 11f

- *Approach III* calibrates the margin in accordance with alternative (b) (rebuttable presumption that the margin is implied by the actual premium) and is supported by supervising authorities from the USA.[203]

Nevertheless, the IAIS proposes slightly different approaches the proposed alternatives are very close to the IASB'S proposal. However this submission was the most interesting regarding question 5 and therefore is mentioned to this extent.

3.5.7 Financial Service Providers

This group is very strong in favour of alternative c). Eight out of eleven commenters prefer this alternative. Further two proposed another alternative under d) and the remaining one prefers alternative a).

Alternative c) is very much favoured by this group. Nevertheless, as in the other groups, the arguments, is any, are not very strong. Amongst arguments already stated in the previous groups there are no major arguments that are brought up by this group. The financial service providers just mention that prices for product with the same risk can vary e.g. depending on pricing policy set by the different insurers or "[…] due to factors such as insurance cycles or in order to balance their portfolio."[204]

The proponent of **alternative a)** argues that there should not be a recognition of a gain at inception and therefore favours this calibration method. The two comments of submitters suggesting another alternative than proposed are not significant.

3.5.8 Others

Most of the remaining commenters prefer **alternative c**). Four out of seven note specifically their support of this alternative. Furthermore, two do not mention their preference and one prefers alternative a), because it would not result in a profit or loss at inception.

[203] cf. CL 148, p. 11ff
[204] CL 72, p. 4

3.6 The Commenters' Views on the Measurement Model

3.6.1 Question 5

This paper proposes 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. The paper labels that measurement attribute 'current exit value'.
(a) Is that measurement attribute appropriate for insurance liabilities. Why or why not? If not, which measurement attribute do you favour, and why?
(b) Is 'current exit value' the best label for that measurement attribute? Why or why not?

3.6.2 Insurers

In general the group of insurers is not in favour of the proposed measurement attribute. Only five out of 31 commenters stated their explicit support of the proposal. Even amongst the proponents many mentioned concerns. The remaining commenters split into eighteen explicitly disagreeing with the current exit value model and eight who discuss the problems caused by it.

Throughout all the opponents' comments the most criticised point of the proposed model is that it puts too much weight on a hypothetical transfer notion. Many note that a secondary transfer market for insurance contracts does not exist, or if it exists it would not be deep, competitive or perfect. Furthermore, some insurers mention that they operate in jurisdictions where it would not be legally permitted to transfer an insurance liability anyways.

The proponents of the current exit value are limited to five commenters. Even thought they support the IASB's proposal they mention concerns in regards of practical implementation and the use of only non-entity information.

Regarding the measurement attribute's label there is no obvious difference in the proponents' and opponents' opinion of the model. Some state that it is more important to develop an implementable measurement attribute first and then think of a suitable label. Overall the group criticises the same points of the proposed measurement attribute which are linked to the critics in question 2 (three building blocks).

3.6.3 Actuaries

Different from the group of insurers the actuaries' view is in favour of the proposed measurement attribute. Six out of ten commenters support the proposal. The remaining four submissions split into one proposing a different attribute and three discussing the inherent problems, but not stating their position.

The proponents however have some concerns which are already mentioned by the previous group. Especially the transfer notion and the use of entity-specific information are again points in discussion.

The remaining submissions do not really include interesting comments. Overall the comments of the actuaries are limited and very supportive of the IASB's proposal.

3.6.4 Accounting Profession

The comments of this group are of the very same opinion. Eighteen commenters out of the total of 21 respondents are explicitly not in favour of the proposed measurement attribute. The remaining three submissions are not extensive and not significant at all compared to the large number of opponents.

The opponents also agree entirely with one another in the points criticised. As in the previous groups this group is not in favour of the transfer notion. Repeated there are statements that there would be no secondary markets for insurance liabilities and reference to a hypothetical transfer would not result in an objective presentation of the liabilities. Furthermore, many commenters suggest that a more appropriate measurement attribute would be a settlement approach. The inherent label "market consistent current settlement value" is also suggested by many commenters of this group. However, with reference to question 5 this group provides the best defined position.

3.6.5 Standard Setters

This group is very indecisive about its opinion on the measurement attribute. The majority of the submissions discusses the inherent problems of a market based measurement model, but does not state whether there is support for the IASB's proposal or not. Eight out of sixteen respondents do not state their position when answering this question. The remaining eight split into six opponents and two proponents.

The submissions discussing only inherent problems regarding the proposed measurement attribute rarely contain constructive suggestions. The opponents argue that the proposal would not reflect the nature of insurance contracts and that the transfer notion would presume liquid and efficient markets, which would not exist for insurance liabilities. Amongst the opponents there are only two submissions explicitly suggesting another measurement attribute, either an "ultimate fulfilment value"[205] or "value in settlement"[206].

The two proponents are the most extensive submissions of this group. "The AASB]Australian Accounting Standards Board[views the model as consistent with the way in which the insurance industry is managed and views the outcome of the model as providing the most useful information for users as it reflects the uncertainty of the cash flows and reflects the economic substance of the contracts."[207]

Overall the submissions of this group are not expressive and the arguments for or against the proposed measurement attribute are just a few and not very meaningful.

[205] CL 141, p. 15
[206] CL 147, p. 14
[207] CL 109, p. 29

3.6.6 Supervisors

The three responses split into two proponents and one opponent. Neither the proponents nor the opponent contribute any new aspects or points in discussion.

3.6.7 Financial Service Providers

Again in this group there is no overall opinion. The responses are very controversial. The total of eleven commenters split into six discussing only, three disagreeing and two agreeing with the proposal.

Besides the already mentioned arguments one commenter only discussing the proposal raises a new aspect of the transfer notion. Fairfax Financial Holding argues: “If a company were to acquire a book of businesses from a competitor, the acquirer would require an additional risk premium for uncertainty in managing the book of business which it did not underwrite. This additional risk premium would impact the value at which the claims liability would transfer between two arm’s length parties. Therefore in a market transaction, the exit value as contemplated in this paper would no necessarily represent the value at which claims liabilities would be transferred.”[208] It seems like the argument should pinpoint recognizing an additional risk margin for this case. Nevertheless the commenter leaves the intention behind this statement open.

Furthermore the proponents include one peculiar comment also providing a new remark. FirstRand Banking Group mentions definitions of the three building blocks and of the current exit value and then states: “There seem to be two models described here which are conceptually different.”[209] Besides these two commenters bringing up some new aspects this group does not contain significant opinions on question 5.

3.6.8 Others

The group of “Others” referring to this question include four submissions not in favour of and two supporting the proposal. Again the opponents argue against the transfer

[208] CL 26, p. 6
[209] CL 72, p. 6

notion and a few request for example "value in settlement with the policyholder"[210]. The proponents do not state arguments, but that they believe that the measurement attribute is appropriate.

3.7 The Commenters' Views on the Incorporation of Policyholder Behaviour

3.7.1 *Question 6*

In this paper, beneficial policyholder behaviour refers to a policyholder's exercise of a contractual option in a way that generates net economic benefits for the insurer. For expected future cash flows resulting from beneficial policyholder behaviour, should an insurer: (a) incorporate them in the current exit value of a separately recognised customer relationship asset? Why or why not? (b) incorporate them, as a reduction, in the current exit value of insurance liabilities? Why or why not? (c) not recognise them? Why or why not?

3.7.2 *Insurers*

The number of insurers answering question 6 is notably lower than the number of responses to the previous questions. Nineteen commenters respond directly to this question. Nevertheless, the majority of twelve commenters prefer the incorporation as a reduction of the insurance liability. The remaining submissions split into three who prefer recognizing a separate customer relationship asset, three not stating their preferences and one commenter requesting not to permit recognizing beneficial policyholder behaviour.

Most of the proponents of **alternative a)** state that recognizing beneficial policyholder behaviour in general would be more relevant and reliable to the users of financial

[210] cf. CL 42, p. 2

statements.[211] Many commenters only state the preference of this alternative, but do not discuss or note any reasons. Only a few name some specific reasons. One commenter states that "[…] the costs associated with distinguishing the contractual relationship from the liability […] will exceed the benefits of making that distinction."[212] This is also the argument stated by the IASB in the DP (paragraph 144). Furthermore another submission notes that there is a "[…] close relationship and interdependency of the asset and the liability cash flows."[213]

The submissions preferring **alternative c)** and therefore favouring that policyholder behaviour should not be incorporated are from insurers mostly providing property and causality insurance coverage. In their view it is not appropriate to include such anticipated benefits in the measurement of short-term insurance contracts. One of those submissions is from Lloyd's stating: "From a general insurance perspective there would be too much uncertainty and subjectivity involved in determining whether policyholder would renew their existing contracts."[214]

America International Group, Inc. wants the IASB to require in the standard, that a separate asset should be recognized because it would "[…] provide financial statement users with more relevant information […]"[215] Nevertheless, this comment is the only one of this kind. The remaining three submissions do not give a statement on their preference.

3.7.3 Actuaries

The actuaries provide a very clear picture on their opinion regarding question 6. All ten responses to this question prefer **alternative b)**. Amongst the comments the most significant arguments are: that "[…] it is consistent with the objective […] of incorporating […] all available information about the cash flows"[216] and that "[…] a transferee in a hypothetical transfer would look at the contract as a whole."[217]

[211] CL 127, p. 6
[212] CL 46, p. 7
[213] CL 17, p. 3
[214] CL 124, p. 6
[215] CL 62, p. 14
[216] CL14, p. 8
[217] CL 30, p. 8

Furthermore, many actuaries request that all cash flows resulting from policyholder behaviour should be reflected. Many are of the opinion that the final standard should not differ between beneficial and unfavourable policyholder behaviour. Overall it can be concluded that this group is very consistent in their opinion.

3.7.4 Accounting Profession

The accounting profession provides twenty direct responses to question 6. The majority of fourteen commenters supports alternative b). The remaining submissions split into two commenters preferring no recognition of policyholder behaviour, three not stating their preference and one suggesting combination of a) and b).

The proponents of recognizing the benefits resulting from policyholder behaviour as a reduction of the liability do not present any new arguments for it or against the other options proposed. As in the previous group the arguments are, throughout all submissions, the same ones.

Furthermore, all remaining commenters do not raise any new aspects or arguments, except peculiar comment of the submitter supporting a combination of the proposed alternatives. The Hong Kong Institute of Certified Public Accountants states that it prefers a standard permitting both options. However, there should be further requirements for disclosure. "We believe this disclosure will be particularly helpful to regulators and other financial statement users […]"[218] Nevertheless, this is the only submission of this opinion and the majority are in favour of incorporating policyholder behaviour as a reduction of the insurance liability.

3.7.5 Standard Setters

Again the larger party of this group is in favour of incorporating policyholder behaviour as a reduction of the liability. Fourteen out of the seventeen responses support alternative b). The remaining three are of different opinions, one is in favour of alternative a) – recognizing a separate asset, one favours no recognition at all and one

[218] CL 113, p. 7

commenter only discusses the aspect without taking a position.

Most of the proponents of **alternative b)** state that it is most consistent with the current exit value model. Furthermore some state that also unfavourable policyholder behaviour should be taken into consideration as well. One commenter even argues that the discussion on policyholder behaviour would not be necessary at all, because the resulting cash flows would already be taken into consideration under the first building block from the current exit value model.

The German Accounting Standards Board is the only commenter of this group supporting alternative a) because alternative b) "[…] does not really encourage transparency in accounting."[219] Furthermore it has to be stated that the two remaining commenters do not provide any arguments, neither the supporter of alternative c) nor the submission only discussing the aspects of policyholder behaviour.

3.7.6 Supervisors

The three submissions are of one opinion. All commenters of this group are in favour of recognizing benefits as a reduction of the insurance liability. Overall it can be concluded that in their view all related cash flows should be recognized and that there are specific concerns regarding the recognition of a separate asset.

3.7.7 Financial Service Providers

This group is with regards to this question of one overall opinion. All ten commenters directly responding to question 6 prefer alternative b). One submission illustrates very representatively: "We believe that approach (b) more closely reflects the nature of the insurance contract."[220] Almost all responses to this question include more or less the same argument. Nevertheless, one commenter is theoretically more in favour of alternative a), but states that the practical implementation would be too costly and therefore also favours alternative b).[221]

[219] CL 141, p. 15
[220] CL 110, p. 9
[221] cf. CL 27, p. 7

Overall the most significant aspect of this group is that the commenters are of the same opinion, but the stated arguments are not very different from other groups.

3.7.8 Others

From the remaining commenters five responded directly to question 6. All of them are in favour of alternative b). The arguments are still the same as throughout the other groups.

3.8 The Commenters' Views on Criteria for Recognition of Policyholder Behaviour

3.8.1 Question 7

A list follows of possible criteria to determine which cash flows an insurer should recognise relating to beneficial policyholder behaviour. Which criterion should the Board adopt, and why?

(a) Cash flows resulting from payments that policyholders must make to retain a right to guaranteed insurability (less additional benefit payments that result from those premiums). The Board favours this criterion, and defines guaranteed insurability as a right that permits continued coverage without reconfirmation of the policyholder's risk profile and at a price that is contractually constrained.

(b) All cash flows that arise from existing contracts, regardless of whether the insurer can enforce those cash flows. If you favour this criterion, how would you distinguish existing contracts from new contracts?

(c) All cash flows that arise from those terms of existing contracts that have commercial substance (ie have a discernible effect on the economics of the contract by significantly modifying the risk, amount or timing of the cash flows).

(d) Cash flows resulting from payments that policyholders must make to retain a right to any guarantee that compels the insurer to stand ready, at a price that is contractually constrained, (i) to bear insurance risk or financial risk, or (ii) to provide other services. This criterion relates to all contractual guarantees, whereas the criterion described in (a) relates only to insurance risk.

(e) No cash flows that result from beneficial policyholder behaviour.

(f) Other (please specify).

3.8.2 Insurers

The responses to the previous and to this question relate to each others. Hence the comments on this question are almost identical to the ones on the previous question. The total number of responses to question 7 is eighteen compared to nineteen to question 6. The majority of nine commenters prefer the proposed alternative b) under which all cash flows that arise from existing contracts are recognised. The remaining submissions split into three favouring the criterion of guaranteed insurability, two preferring the recognition of cash flows that have commercial substance and one supporting alternative e) – recognition of no cash flows related to this issue.

The most supported alternative is to include all related cash flows as proposed under alternative b). The commenters very often state that it would be the criterion which is most consistent with the current exit value and the hypothetical transfer, as a market participant would also take all cash flows arising from existing contracts into consideration to evaluate the liability. Referring to the question of how to distinguish existing from new contracts no sustainable suggestions are stated.

The three favouring the criterion of guaranteed insurability state that it would be more appropriate for short-term insurance contracts. Furthermore, one of the two commenters preferring the notion of commercial substance only argue that it would "[…] result in the fairest and most faithful representation of the insurer's position."[222] Finally, the commenter preferring not to recognize any cash flows related to beneficial policyholder behaviour already stated his reasons in the comments on the previous question when choosing c) – not to recognise the benefits at all. The remaining submissions do not include any significant comments.

[222] CL 46, p. 8

3.8.3 *Actuaries*

Although the actuaries are of one opinion in response to the previous question they are of different opinion regarding question 7. However, the difference of opinions is not very significant. The groups overall opinion is very balanced between the preference of alternative b) and alternative c). Five commenters prefer the existing contracts notion regardless of its enforceability and four the notion of commercial substance. The one remaining commenter states that "[…] alternatives (b) and (c) are equivalent because under both alternatives commercial substance would be applied in practise."[223] Even if there is no explicit comment, it seems as if the actuaries want the IASB to provide only principles and leave it to the practice to consider the recognition of the related cash flows. Nevertheless, overall the group is very much in favour of incorporating policyholder behaviour.

3.8.4 *Accounting Profession*

The responses to question 7 are different from the ones to question 6, where the accounting profession's view is clearer. Alternative c) is favoured by six commenters and is the most favoured one. The remaining submission split into seven discussing only the problem but not stating their preference, two favouring each alternative a) or alternative b). Further there are two submissions not in favour of recognizing policyholder behaviour at all and therefore choosing alternative e). Finally there is the peculiar submission, already mentioned in question 6 (3.7.4) which prefers two alternatives.

Even though many just discuss the aspects which criteria should be established in the standard in general there seems to be a tendency to prefer alternative c). Nevertheless this group does not provide a very uniform view. Furthermore it has to be stated that the arguments for one alternative or against another have already been stated in the previous groups and are not mentioned again in this chapter.

[223] CL 30, p. 8

3.8.5 Standard Setters

Compared to the previous question this group provides a more defuse picture. Nevertheless the most supported alternative is b) with six proponents. Alternative c) is preferred by four and alternative a) by two commenters. The remaining submissions split into three only discussing the aspects and one commenter not supporting recognition of policyholder behaviour at all and therefore choosing alternative e).

Some of the proponents of alternative b) name that the IASB's proposal of guaranteed insurability is not a very distinct criterion. Therefore it can be concluded that the opinions are more driven by the arguments against alternative a) than by the arguments for the chosen alternative b). However, there were just a few commenters try to find a definition for distinguishing existing from new contracts. Most supporters of alternative b) just mentioned that it would be important to define such a criterion to distinguish between existing and new contracts.

The four proponents of alternative c), which criterion is the economic substance notion do not state very strong arguments. Furthermore, it seems like the two proponents of alternative a) are in favour of that proposal because it is the IASB's favourite one. Finally the two remaining submissions do not include significant comments.

3.8.6 Supervisors

The supervisors are of very different opinions regarding the criterion for which cash flows should be recognized relating to policyholder behaviour. The IAIS again discusses the problem and finalizes with the list of supporters for different alternatives. Some IAIS members are in favour of the commercial substance notion others "[…] would prefer further elaboration on a guaranteed insurability principle within the Phase II standard."[224] Furthermore, the two remaining commenters are either in favour of alternative a) or of alternative d). However neither of the two includes significant arguments.

[224] CL 148, p. 21

3.8.7 *Financial Service Providers*

Almost like the responses to the previous question the comments are of one overall opinion. Just a few comments differ slightly from the general opinion of this group. There are twelve comments in all split into nine supporters of alternative b), two in favour of alternative c) and one commenter only discussing the related aspects.

The proponents of alternative b) argue that it would be the widest definition criterion and that the guaranteed insurability notion would be too narrow. Furthermore some state that alternative b) would also be more consistent with the pricing of insurance products and with the amount a transferee would require.[225] Nevertheless most commenters do not address the further question about the criterion to distinguish between existing and new contracts. If a commenter refers to this aspect then only with the statement that it would require further work from the IASB.

The proponents of alternative c) do not mention other arguments than the previous ones. Finally the one commenter discussing the aspects of policyholder behaviour requests the IASB to further guidance and examples. Nevertheless, besides the three different submissions this group is also very much of one overall opinion and does not favour the IASB's proposal of guaranteed insurability.

3.8.8 *Others*

Finally there are five direct responses to question 7 from other commenters. Those respondents are split into two preferring alternative c) and one in favour of alternative b). The remaining two commenters do not state their preference and only discuss the aspects. Furthermore, the comments are very limited in their extent and do not include significant arguments.

[225] cf. CL 60, p. 7

3.9 The Commenters' Views on Acquisition Costs

3.9.1 Question 8

Should an insurer recognise acquisition costs as an expense when incurred? Why or why not?

3.9.2 Insurers

The group of insurers is very supportive regarding the recognition of acquisition costs as expenses. 23 out of the 29 direct responses state their support for the IASB's proposal. The remaining comment letters split into two submissions not agreeing and four submissions not explicitly stating their position.

Most of the proponents state that acquisition costs should be recognized as an expense when incurred. However, a few mention concerns regarding the limitation of the measurement basis. Many still note their disagreement with the guaranteed insurability notion. More precisely seven proponents agree with the proposal, but state their concerns regarding the limitation of cash flows. These submissions are also more extensive than the other proponents.

Both submissions disagreeing with the proposal are from the non-life insurance industry. One commenter states that for short-term contracts it would be "[…] more appropriate to amortize an unearned premium into income and match the income stream with acquisition expenses […] over the contract coverage period."[226] Nevertheless these two comments are the only ones of their kind and do not have considerable impact on the overall opinion of this group. Furthermore the four remaining submissions do not really make their point clear-

3.9.3 Actuaries

In general all of the ten responses to question 8 are in favour of recognizing acquisition

[226] CL 79, p. 12

costs as an expanse when incurred. However, the submissions differ slightly. Five commenters only state that it should be expensed, three mention some kind of dependency on the related liabilities and obligations and two refer to aspects regarding the future premiums.

Three submissions note that the question on how to recognize acquisition costs "[…] is less important than the consistency with the recording of the pre-claim liability or stand-ready obligation."[227] As the liabilities and obligations can be recorded either gross or net of such expenses, this should be an indication whether to recognize the acquisition costs as an asset or as expenses.

The two remaining are more concentrated on the future premiums related to the contract. The Canadian Institute of Actuaries states: "The real question is whether a future source of revenue to recover acquisition expenses should also be recognized."[228] This aspect is also taken into account when the insurer is calculating the price for an insurance contract, where acquisition costs are to be offset by the premiums. Even though some actuaries have different views that would influence the decision on how to recognize acquisition costs their conclusion is the same.

3.9.4 Accounting Profession

The twenty responses of this group are supportive of recognizing acquisition costs as expenses as well. None of the submissions explicitly disagrees. Almost all commenters state that they are in favour, as proposed, to recognize acquisition costs as an expense when incurred. Only a few broach some new aspects. For example one commenter mentions that the decision would be dependent on the valuation model and that it would be only appropriate if the board retains the current exit value model. Furthermore, one commenter requests that the board should define "acquisition costs". Nevertheless even if there is one general opinion of this group there are no new aspects.

[227] CL 97, p. 9
[228] CL 14, p. 11

3.9.5 Standard Setters

This group is the first providing a dispersed overall view. Nevertheless the majority (twelve out of seventeen submissions) are in favour of the IASB's proposal. However there are two commenters disagreeing and further three not clarifying their point.

The larger part of the submissions is in favour of expensing acquisition costs when incurred. Most of the proponents just state their support and rarely mention arguments. However, a few submissions note that expensing would be consistent with the proposed measurement attribute.

The opponents prefer recognizing acquisition costs as an asset. "These costs should be recognized in income for the period over the term of the contract and as the insurer is released from risk."[229] The commenter argues further that acquisition costs bring future benefits and the recognition as expense should be in line with those benefits.[230] The second opponent is in favour of an indirect measurement methodology and therefore prefers to include acquisition costs at initial recognition.[231]

The remaining comment letters include a quite peculiar comment. The ASB states that theoretically it prefers recognizing acquisition costs as an intangible, but writing-off these costs would be an acceptable pragmatic alternative.[232] Even though this group is not of one opinion there are just a couple of submissions with a different point of view. Nevertheless the majority is in favour of recognizing acquisition costs as an expense.

3.9.6 Supervisors

All three commenters agree that acquisition costs should be recognized as expenses. There are few further comments, but one submission includes two interesting arguments: "[…] an insurer cannot reliably estimate the length of time to recover acquisition costs and subsequently, in some cases, a policy may lapse and such costs

[229] CL 73, p. 9
[230] cf. CL 73, p. 9
[231] CL 121, p. 9
[232] CL 22, p. 12

cannot be recovered."[233] However there is very little content of this group's comments.

3.9.7 Financial Service Providers

This group contains eleven direct responses to question 8. These responses are all more or less in favour of expensing acquisition costs. Nevertheless there are slight differences. Six out of the eleven submissions states that expensing would only be appropriate if all future cash flows will be included in the measurement. Many explicitly mention problems with guaranteed insurability notion that restricts the measurement of those cash flows. Therefore these commenters express that their support for expensing acquisition costs would be only with the reservation that the guaranteed insurability notion will be refused.

The remaining five commenters are also supportive and do not state any concerns regarding the constraints of measuring future cash flows or other aspects. Nevertheless the group is supportive overall even though some concerns remain.

3.9.8 Others

There are seven direct responses and every commenter is in favour of the proposal to recognize acquisition costs as an expense when incurred. There is not any further comment in the submissions of this group, other than stating their support.

3.10 The Commenters' Views on the Treatment of Acquired Insurance Contracts

3.10.1 Question 9

Do you have any comments on the treatment of insurance contracts acquired in a business combination or portfolio transfer?

[233] CL 159, p. 6

3.10.2 Insurers

When it comes to the answers to question 9 the submissions provide a wide range of different comments. As this question is hold very general the comments are very broadly spread. The IASB is asking for any comments, which results not only in a wide range of comments, but also in different points of discussion, speculations or even questions put forward by commenters. Especially the question whether the proposed current exit value would be identical with the fair value appears repeatedly within the whole group.

Even though it is very difficult to identify submissions of similar content there are some small groups of the same opinion. Many of the commenters want the IASB to provide further information and clarity as to whether the current exit value and fair value are equivalent or not. For example the American International Group Inc. states: "[…] we encourage the Board to clarify and describe the differences between CEV and fair value, including the rationale for such differences."[234] Furthermore, some state if the board would conclude that both measurement attributes are equivalent the question on the treatment of acquired insurance contracts would no longer be necessary. A couple of other insurers have already concluded that in their view the two measurement attributes are not the same. Therefore these commenters require further analysis in this area[235] and to synchronize current exit value and fair value in order to provide consistency.

Finally a few commenters refer to the IFRS 3 – *Business Combinations* and reiterate the standard. Furthermore one of those commenters requires that IFRS 3 should be amended to provide consistency between the two related standards. In summary it can be said that there a many different aspects discussed concerning this topic and this question but only a few can be reflected in the content of this thesis.

3.10.3 Actuaries

Also the actuaries have very different comments on question 9. Nevertheless some of the seven direct responses have similar content. Some state that there should be "[…]

[234] CL 62, p. 16
[235] cf. CL 127, p. 10

consistent treatment between insurance liabilities on acquired versus pre-existing business."[236] This consistency can only be achieved when no "[…] significant differences will not remain between fair value and current exit value."[237] Even when the actuaries point to the question whether current exit value and fair value would be identical there are no significant comments on this issue.

The remaining submissions which do not discuss the aspects above do not really include any other important issues either. Even if there remain some concerns the group of actuaries seems not to be opposed to the treatment of acquired insurance contracts.

3.10.4 Accounting Profession

In total there were eighteen direct responses to question 9. As with the two previous groups also here the opinions differ. Many comment that it would not be clear whether current exit value and fair value are equivalent. Others mention that in practice there would not be a difference between those two measurement approaches. Others again only state that the measurement of existing and obtained insurance contracts should be the same. A couple of others notes that if the IASB concludes that current exit value would be equivalent to fair value the requirement for expanded presentation would be redundant.

Nevertheless, not very different from the previous groups there is high uncertainty amongst the commenters regarding the relationship between current exit value and fair value. In conclusion it can be stated that all commenters request consistency between the existing IFRS 3 – *Business Combinations* and the final insurance contract standard, but the suggestions to reach this goal are very different.

3.10.5 Standard Setters

The group of standard setters includes fourteen direct responses to question 9. Again there is a wide range of different comments. Many state that they are in favour that measurement of acquired and direct written insurance contracts should be consistent. A

[236] CL 77, p. 13
[237] CL 39, p. 4

few commenters state that it would be difficult to answer this question at this stage of development. One notes that "[…] the IASB should first conclude on the differences or similarities between current exit value and fair value."[238] Another submission states that the question would first depend on the ultimate measurement attribute.[239]

Some commenters make some suggestions to overcome the problem. The European Financial Reporting Advisory Group (EFRAG) states it would be important that "[…] the distinction between business combinations and portfolio transfers has to be defined in a clearer way[…]".[240] The remaining submissions do not include significant arguments. Nevertheless this group is aware of the problem but does not bring up new aspects or suggestions.

3.10.6 Supervisors

The three submissions from supervisors are of the same opinion and agree that acquired insurance contracts should be measured at fair value under IFRS 3. However, one commenter states "[…] that there may be differences between the consideration upon transfer and the liability measure adopted for insurance obligations."[241] Furthermore the commenter concludes that this difference would be goodwill, but does not comment on further treatment of the goodwill. Nevertheless this is the only peculiar aspect of this group. The remaining two submissions are very limited and do not include further aspects.

3.10.7 Financial Service Providers

As in the previous groups the financial service providers contain very different comments regarding question 9. The eleven direct responses mainly target the already known question whether current exit value and fair value would be equivalent. Some conclude that differences exist, others limit their comments on the IASB's decision on this issue and others just point out that there could be a difference. Nonethelesss the group prefers consistency between the two measurement approaches and wants the

[238] CL 132, p. 8
[239] CL 119, p. 11
[240] CL 161, p. 25
[241] CL 148, p. 21

measurement of acquired insurance contracts to be in line with self-written contracts.

3.10.8 Others

Similar to the response of the previous question the group of others has very limited comments to question 9. There are seven direct responses which do not include significant comments.

4 Conclusion

The responses to the nine specific questions treated in this thesis are very important input for the further development of the standard. Overall there are many points which are criticised. The three building blocks and the current exit value measurement attribute are very often not in the interest of or in line with the commenter's idea of a principle based standard. Nevertheless it seems like overall there is support for the IASB's proposals.

Regarding the groups there are hardly any differences in the opinions. However some differences can be found in the way different groups suggest solutions to the problems or points in discussion. These differences are sometimes quite obvious because the groups claim the development of further guidance and specific details for themselves. Nevertheless there can also be slight nuances of different opinions be found within the groups. For example the responses to question 2 the big group of insurers is split into subgroups in order to differentiate between the different views of insurers. Overall there was high support for the IASB's work, but also many points criticised. These points seem to be under precise consideration of the IASB. The current available information on the IASB's homepage announces that it "[…] aims to publish an Exposure Draft in April 2010 and a final standard in 2011."[242] Then the changes of the proposals and the possible effect of the comments will be observable.

[242] IASB Homepage: Current Projects – Insurance Contracts (13.02.2010)

List of Literature

Issued Papers

Discussion Paper – Preliminary Views on Insurance contracts, May 2007, IASB

European Embedded Value Principles, October 2009, CFO Forum

Exposure Draft – Fair Value Measurement, May 2009, IASB

IFRS 4 – Insurance contracts – Frequently asked questions, July 2004, IASB

Internet

Homepage of IASB: Current Projects: Insurance Contract

http://www.iasb.org/Current+Projects/IASB+Projects/Insurance+Contracts/Insurance+Contracts.htm

List of Comment Letters

CL	Submitter	Country
1	Manulife Financial	Canada
2	Towers, Perrin, Forster & Crosby Inc.	England
3	Assuris	Canada
4	QBE Insurance Group imited	Australia
5	The Institute of Chartered Accountants in Australia	Australia
6	Insurance Australia Group	Australia
7	FSAA - Financial Service Accountants Association Limited	Australia
8	Australian Governement Health Insurance Administration Council	Australia
9	Morgan Stanley	USA
10	Grant Thornton International	England
11	London School of Economics	England

12	The Japanese Institute of Certified Public Accountants	Japan
13	Accountants' and Actuaries' Liaison Committee	Australia
14	Canadian Institute of Actuaries	Canada
15	Malaysian Accounting Standards Board	Malaysia
16	CIPFA Policy and Technical	England
17	Canadian Life and Health Insurance Association Inc.	Canada
18	Annmarie Hagan	USA
19	Royal Australian Automobile Clubs	Australia
20	General Insurance Association of Japan	Japan
21	Investment & Life Assurance Group The Practitioner Voice	England
22	UK Accounting Standards Board	England
23	CPA Australia	Australia
24	Catlin Group Limited	Bermuda
25	London Invesment Banking Association	England
26	Fiarfax Financial Holding Limited	Canada
27	Fitch Rating	England
28	SAICA - Shortterm Insurance Submission	South Africa
29	SAICA -Medical Schemes Submission	South Africa
30	Acturial Society of South Africa	South Africa
31	SAICA - Longterm Insurance Submission	South Africa
32	Reinsurance Group of America, Inc.	USA
33	Basel Commitee on Banking Supervision	Switzerland
34	The Northwestern Mutual Life Insurance Company	USA
35	Talbot Underwriting Ltd	England
36	Principal Financial Group	USA
37	Pace University, New York	USA
38	Daniel F. Case	na
39	Czech Society of Actuaries	Czech Republic
40	The Life Insurance Association of Japan (LIAJ)	Japan
41	European Federation of Financial Analysts’ Societies (EFFAS)	Germany
42	Jeremy Pearcy	England
43	Johan van Zyl Smit	na
44	AMP Limited	Australia
45	Santam	South Africa

46	ABSA LIFE LIMITED	South Africa
47	Norsk Regnskaps Stiftelse - Norwegian Accounting Standard Board	Norwegen
48	Institute of Chartered Accountants in Ireland	Ireland
49	Chesnara	England
50	Bank of Ireland	Ireland
51	Sanlam	South Africa
52	Swiss Holding	Switzerland
53	KPMG	England
54	DAV - Deutsche Aktuaren Vereinigung	Germany
55	CEBS - Committee of European Banking Supervision	England
56	Sun Life Financial	Canada
57	Merril Lynch	England
58	CIMA - Chartered Institute of Management Accountants	England
59	ACLI - American Council of Life Insurers	USA
60	BBA - British Bankers’ Association	England
61	The American Insurance Association	USA
62	AIG - American International Group	USA
63	National Association of Mutual Insurance Companies	USA
64	ACE Limited	Bermuda
65	Alan Zimmermann	USA
66	The Travelers Companies, Inc.	USA
67	Association of Financial Garanty Insurers	USA
68	Standard & Poor's	England
69	Meiji Yasuda	Japan
70	The Institute of Actuaries of Japan	Japan
71	Accounting Standards Board of Japan	Japan
72	FirstRand Group Technical Accounting	South Africa
73	Brazilian Accounting Pronouncements Committee	Brazil
74	Austrian Actuarial Association (AVÖ)	Austria
75	Association of Chartered Certified Accountants	England
76	Hartford Financial Services Group Inc.	USA
77	American Academy of Actuaries	USA
78	Institute of Actuaries of Korea	Korea

79	Reinsurance Association of America	USA
80	International Swaps and Derivatives Association Inc.	England
81	Godfrey Wanyoike	na
82	Property Casualty Insurers Association of America	USA
83	Insurance Council of Australia	Australia
84	Institut des actuaires	France
85	Austrian Financial Reporting and Auditing Committee	Austria
86	Swedish Society of Actuaries	Sweden
87	Chauncer Holdings	England
88	The Association of Spanish Insurers	Spain
89	The UK Actuarial Profession	England
90	The Insurance Accounting Task Force of the Canadian Accounting Standards Board	Canada
91	ACTEO, MEDEF & AFEP (Groups of French Companies)	France
92	PricewaterhouseCoopers LLP	England
93	Insurance Bureau of Canada	Canada
94	Institute of Chartered Accountants in Scotland	Scotland
95	Endurance Speciality Holding Ltd.	Bermuda
96	The Old Brew House	England
97	International Acturial Association	Canada
98	G100 - Representation of CFO's Australia's largest business enterprises	Australia
99	Lucida PLC	England
100	Financial Security Assurance Holding Ltd.	USA
101	Assuralia	Belgium
102	Group of North American Insurance Enterprises	USA
103	Quoted Companies Alliance	England
104	Deloitte	England
105	International Underwriting Association	England
106	Danish Financial Sector Committee	Denmark
107	British American Tabacco	England
108	Aviva	England
109	Australian Accouting Standard Board	Australia
110	HSBC Holding	England

111	Institute of Actuaries of Australia	Australia
112	Fédération Française des Sociétés d'Assurances	France
113	Hong Kong Institute of CPAs	China
114	American Institute of Certified Public Accountants	USA
115	Korea Accounting Standards Board	Korea
116	Mazars	France
117	Association Internationale des Sociétés d’Assurance Mutuelle	Belgium
118	Danish Insurance Association	Denmark
119	Dutch Accounting Standards Board	Netherlands
120	European Federation of Accountants	Belgium
121	Swedish Financial Reporting Board	Sweden
122	Ernst & Young	England
123	Legal & General	Germany
124	Lloyds	England
125	BDO Global	Belgium
126	The European Insurance CFO Forum etc	Netherlands
127	The European Insurance CFO Forum etc	Netherlands
128	Prudential	England
129	Association of British Insurers	England
130	Schweizerische Lebensversicherungs- und Rentenanstalt	Switzerland
131	Swedish Enterprise Accounting Group	Sweden
132	Conseil National de la Comptabilité	France
133	Institute of Accounting Profession in Sweden	Sweden
134	New Zealand Institute of Chartered Accountants	New Zealand
135	New Zealand Society of Actuaries	New Zealand
136	AMI Insurance Limited	New Zealand
137	EQC - Earth Quake Comission	New Zealand
138	Insurance Council of New Zealand	New Zealand
139	Chubb Corporation	USA
140	International Credit Insurance & Surety Association	Netherlands
141	German Accounting Standards Board	Germany
142	Institute der Wirtschaftsprüfer in Deutschland e.V.	Germany
143	Committee of European Insurance and Occupational Pensions Supervisors	Germany

144	Royal & Sunaliance - Group Corporate Centre	England
145	Institute of Chartered Accountants in England and Wales	England
146	Hiscox	England
147	Board for Actuarial Standards	England
148	International Association of Insurance Supervisors (IAIS)	Switzerland
149	Hiscox	England
150	London Market (Specialty Business) Interest Group	England
151	International Organisation of Securities Commissions	Spain
152	European Banking Federation	Belgium
153	Allianz SE	Germany
154	Australian Prudential Regulation Authority	Australia
155	Hundred Group of Finance Directors	England
156	Office of the Superintendent of Financial Institutions Canada	Canada
157	BNP Paribas	France
158	The Italian Standard Setter	Italy
159	The IFRS Monitoring Panel in Thailand	Thailand
160	Felipe Perez Cervantes	Mexico
161	European Financial Reporting Advisory Group (EFRAG)	England
162	Accounting Standards Council (ASC)	Singapore

Appendix I - Responses to Specific Questions

Group	Number of Comment Letters	Pages (Total)	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9
Insurers	54	586	31	33	30	31	31	19	18	29	24
Actuaries	15	336	8	11	11	10	10	10	10	10	7
Accounting Profession	28	327	20	21	21	21	21	20	20	20	18
Standard Setters	19	348	17	17	17	17	16	17	16	17	14
Supervisors	7	121	3	3	3	3	3	3	3	3	3
Financial Service Providers	21	238	12	15	11	11	11	10	12	11	11
Others	18	158	6	6	6	7	6	5	5	7	7
Total	**162**	**2.114**	**97**	**106**	**99**	**100**	**98**	**84**	**84**	**97**	**84**

1 Commenter responed to this question

0 No Comment on this question

PT1 Total of responses to the questions of first part of the Discussion Paper

CL# Consecutive number given by the IASB on ist homepage

#CL	Pages	**Insurers**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
102	45	Group of North American Insurance Enterprises	USA	1	1	1	1	1	1	1	1	1	9
127	36	The European Insurance CFO Forum etc	Netherlands	1	1	1	1	1	1	1	1	1	9
40	35	The Life Insurance Association of Japan (LIAJ)	Japan	1	1	1	1	1	1	1	1	1	9
117	21	Association Internationale des Sociétés d'Assurance Mutuelle	Belgium	1	1	1	1	1	1	1	1	1	9
59	21	ACLI - American Council of Life Insurers	USA	1	1	1	1	1	1	1	1	1	9
79	20	Reinsurance Association of America	USA	1	1	1	1	1	1	1	1	1	9
62	19	AIG - American International Group	USA	1	1	1	1	1	1	1	1	1	9
150	19	London Market (Specialty Business) Interest Group	England	1	1	1	1	1	1	1	1	1	9
46	18	ABSA LIFE LIMITED	South Africa	1	1	1	1	1	1	1	1	1	9
144	14	Royal & Sunaliance - Group Corporate Centre	England	1	1	1	1	1	1	1	1	1	9
21	13	Investment & Life Assurance Group The Practitioner Voice	England	1	1	1	1	1	1	1	1	1	9
99	12	Lucida PLC	England	1	1	1	1	1	1	1	1	1	9
17	6	Canadian Life and Health Insurance Association Inc.	Canada	1	1	1	1	1	1	1	1	1	9
124	16	Lloyds	England	1	1	1	1	1	1	0	1	1	8
45	15	Santam	South Africa	1	1	1	1	1	0	1	1	1	8
34	14	The Northwestern Mutual Life Insurance Company	USA	1	1	1	1	1	1	1	1	0	8
20	11	General Insurance Association of Japan	Japan	1	1	1	1	1	1	1	1	0	8
69	11	Meiji Yasuda	Japan	1	1	1	1	1	1	1	1	0	8
93	10	Insurance Bureau of Canada	Canada	1	1	1	1	1	1	0	1	1	8
66	21	The Travelers Companies, Inc.	USA	1	1	1	1	1	0	0	1	1	7
83	20	Insurance Council of Australia	Australia	1	1	1	1	1	0	0	1	1	7
61	20	The American Insurance Association	USA	1	1	1	1	1	0	0	1	1	7
82	10	Property Casualty Insurers Association of America	USA	1	1	1	1	1	0	0	1	1	7
4	9	QBE Insurance Group imited	Australia	1	1	1	1	1	0	0	1	1	7
24	9	Catlin Group Limited	Bermuda	1	1	1	1	1	0	0	1	1	7
87	8	Chauncer Holdings	England	1	1	1	1	1	0	0	1	1	7
136	12	AMI Insurance Limited	New Zealand	1	1	1	1	1	0	0	1	0	6
105	12	International Underwriting Association	England	1	1	0	1	1	1	0	0	1	6
138	5	Insurance Council of New Zealand	New Zealand	1	1	1	1	1	0	0	1	0	6
63	6	National Association of Mutual Insurance Companies	USA	1	1	1	1	1	0	0	0	0	5
137	3	EQC - Earth Quake Comission	New Zealand	0	1	1	1	1	0	0	0	0	4
35	4	Talbot Underwriting Ltd	England	1	1	0	0	0	0	0	1	0	3
130	3	Schweizerische Lebensversicherungs- und Rentenanstalt	Switzerland	0	1	0	0	0	0	1	0	0	2
140	18	International Credit Insurance & Surety Association	Netherlands	0	0	0	0	0	0	0	0	0	0
64	8	ACE Limited	Bermuda	0	0	0	0	0	0	0	0	0	0

51	6	Sanlam	South Africa	0	0	0	0	0	0	0	0	0	0
88	6	The Association of Spanish Insurers	Spain	0	0	0	0	0	0	0	0	0	0
67	5	Association of Financial Garanty Insurers	USA	0	0	0	0	0	0	0	0	0	0
126	5	The European Insurance CFO Forum etc	Netherlands	0	0	0	0	0	0	0	0	0	0
139	5	Chubb Corporation	USA	0	0	0	0	0	0	0	0	0	0
153	5	Allianz SE	Germany	0	0	0	0	0	0	0	0	0	0
95	4	Endurance Speciality Holding Ltd.	Bermuda	0	0	0	0	0	0	0	0	0	0
129	4	Association of British Insurers	England	0	0	0	0	0	0	0	0	0	0
32	3	Reinsurance Group of America, Inc.	USA	0	0	0	0	0	0	0	0	0	0
101	3	Assuralia	Belgium	0	0	0	0	0	0	0	0	0	0
123	3	Legal & General	Germany	0	0	0	0	0	0	0	0	0	0
6	2	Insurance Australia Group	Australia	0	0	0	0	0	0	0	0	0	0
49	2	Chesnara	England	0	0	0	0	0	0	0	0	0	0
108	2	Aviva	England	0	0	0	0	0	0	0	0	0	0
112	2	Fédération Française des Sociétés d'Assurances	France	0	0	0	0	0	0	0	0	0	0
149	2	Hiscox	England	0	0	0	0	0	0	0	0	0	0
118	1	Danish Insurance Association	Denmark	0	0	0	0	0	0	0	0	0	0
128	1	Prudential	England	0	0	0	0	0	0	0	0	0	0
146	1	Hiscox	England	0	0	0	0	0	0	0	0	0	0
54	586			31	33	30	31	31	19	18	29	24	246

1 Commenter responed to this question
0 No Comment on this question
PT1 Total of responses to the questions of first part of the Discussion Paper
CL# Consecutive number given by the IASB on ist homepage

#CL	Pages	**Actuaries**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
97	50	International Acturial Association	Canada	1	1	1	1	1	1	1	1	1	9
111	44	Institute of Actuaries of Australia	Australia	1	1	1	1	1	1	1	1	1	9
14	21	Canadian Institute of Actuaries	Canada	1	1	1	1	1	1	1	1	1	9
77	19	American Academy of Actuaries	USA	1	1	1	1	1	1	1	1	1	9
30	17	Acturial Society of South Africa	South Africa	1	1	1	1	1	1	1	1	1	9
78	13	Institute of Actuaries of Korea	Korea	1	1	1	1	1	1	1	1	1	9
74	12	Austrian Actuarial Association (AVÖ)	Austria	1	1	1	1	1	1	1	1	0	8
13	13	Accountants' and Actuaries' Liaison Committee	Australia	1	1	1	1	1	1	1	1	0	8
54	53	DAV - Deutsche Aktuaren Vereinigung	Germany	0	1	1	1	1	1	1	1	0	7
39	10	Czech Society of Actuaries	Czech Rep.	0	1	1	0	0	1	1	1	1	6
70	6	The Institute of Actuaries of Japan	Japan	0	1	1	1	1	0	0	0	0	4
89	57	The UK Actuarial Profession	England	0	0	0	0	0	0	0	0	0	0
86	13	Swedish Society of Actuaries	Sweden	0	0	0	0	0	0	0	0	0	0
135	7	New Zealand Society of Actuaries	New Zealand	0	0	0	0	0	0	0	0	0	0
84	1	Institut des actuaires	France	0	0	0	0	0	0	0	0	0	0
15	336			8	11	11	10	10	10	10	10	7	87

1 Commenter responed to this question
0 No Comment on this question
PT1 Total of responses to the questions of first part of the Discussion Paper
CL# Consecutive number given by the IASB on ist homepage

#CL	Pages	**Accounting Profession**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
92	27	PricewaterhouseCoopers LLP	England	1	1	1	1	1	1	1	1	1	9
145	26	Institute of Chartered Accountants in England and Wales	England	1	1	1	1	1	1	1	1	1	9
53	24	KPMG	England	1	1	1	1	1	1	1	1	1	9
104	24	Deloitte	England	1	1	1	1	1	1	1	1	1	9
116	23	Mazars	France	1	1	1	1	1	1	1	1	1	9
122	21	Ernst & Young	England	1	1	1	1	1	1	1	1	1	9
142	18	Institute der Wirtschaftsprüfer in Deutschland e.V.	Germany	1	1	1	1	1	1	1	1	1	9
48	17	Institute of Chartered Accountants in Ireland	Ireland	1	1	1	1	1	1	1	1	1	9
113	14	Hong Kong Institute of CPAs	China	1	1	1	1	1	1	1	1	1	9
133	14	Institute of Accounting Profession in Sweden	Sweden	1	1	1	1	1	1	1	1	1	9
120	12	European Federation of Accountants	Belgium	1	1	1	1	1	1	1	1	1	9
75	12	Association of Chartered Certified Accountants	England	1	1	1	1	1	1	1	1	1	9
7	12	FSAA - Financial Service Accountants Association Limited	Australia	1	1	1	1	1	1	1	1	1	9
125	10	BDO Global	Belgium	1	1	1	1	1	1	1	1	1	9
94	9	Institute of Chartered Accountants in Scotland	Scotland	1	1	1	1	1	1	1	1	1	9
29	8	SAICA -Medical Schemes Submission	South Africa	1	1	1	1	1	1	1	1	1	9
31	7	SAICA - Longterm Insurance Submission	South Africa	1	1	1	1	1	1	1	1	1	9
12	5	The Japanese Institute of Certified Public Accountants	Japan	1	1	1	1	1	1	1	1	1	9
10	12	Grant Thornton International	England	1	1	1	1	1	1	1	1	0	8
28	6	SAICA - Shortterm Insurance Submission	South Africa	1	1	1	1	1	1	1	1	0	8
114	9	American Institute of Certified Public Accountants	USA	0	1	1	1	1	0	0	0	0	4
134	4	New Zealand Institute of Chartered Accountants	New Zealand	0	0	0	0	0	0	0	0	0	0
106	3	Danish Financial Sector Committee	Denmark	0	0	0	0	0	0	0	0	0	0
131	2	Swedish Enterprise Accounting Group	Sweden	0	0	0	0	0	0	0	0	0	0
58	2	CIMA - Chartered Institute of Management Accountants	England	0	0	0	0	0	0	0	0	0	0
23	2	CPA Australia	Australia	0	0	0	0	0	0	0	0	0	0
16	2	CIPFA Policy and Technical	England	0	0	0	0	0	0	0	0	0	0
5	2	The Institute of Chartered Accountants in Australia	Australia	0	0	0	0	0	0	0	0	0	0
28	327			20	21	21	21	21	20	20	20	18	182

1 Commenter responed to this question
0 No Comment on this question
PT1 Total of responses to the questions of first part of the Discussion Paper
CL# Consecutive number given by the IASB on ist homepage

#CL	Pages	**Standard Setters**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
109	56	Australian Accouting Standard Board	Australia	1	1	1	1	1	1	1	1	1	9
90	25	The Insurance AccTask Force of the Canadian Accounting Standards Brd	Canada	1	1	1	1	1	1	1	1	1	9
141	23	German Accounting Standards Board	Germany	1	1	1	1	1	1	1	1	1	9
132	23	Conseil National de la Comptabilité	France	1	1	1	1	1	1	1	1	1	9
147	23	Board for Actuarial Standards	England	1	1	1	1	1	1	1	1	1	9
22	20	UK Accounting Standards Board	England	1	1	1	1	1	1	1	1	1	9
119	18	Dutch Accounting Standards Board	Netherlands	1	1	1	1	1	1	1	1	1	9
73	16	Brazilian Accounting Pronouncements Committee	Brazil	1	1	1	1	1	1	1	1	1	9
15	14	Malaysian Accounting Standards Board	Malaysia	1	1	1	1	1	1	1	1	1	9
162	11	Accounting Standards Council (ASC)	Singapore	1	1	1	1	1	1	1	1	1	9
47	10	Norsk Regnskaps Stiftelse - Norwegian Accounting Standard Board	Norwegen	1	1	1	1	1	1	1	1	1	9
85	17	Austrian Financial Reporting and Auditing Committee	Austria	1	1	1	1	1	1	1	1	0	8
158	9	The Italian Standard Setter	Italy	1	1	1	1	1	0	1	1	1	8
115	9	Korea Accounting Standards Board	Korea	1	1	1	1	1	1	1	1	0	8
151	16	International Organisation of Securities Commissions	Spain	1	1	1	1	0	1	0	1	1	7
121	11	Swedish Financial Reporting Board	Sweden	1	1	1	1	1	1	0	1	0	7
161	34	European Financial Reporting Advisory Group (EFRAG)	England	1	0	1	0	0	1	1	1	1	6
71	10	Accounting Standards Board of Japan	Japan	0	1	0	1	1	1	1	0	0	5
8	3	Australian Governement Health Insurance Administration Council	Australia	0	0	0	0	0	0	0	0	0	0
19	348			17	17	17	17	16	17	16	17	14	148

1 Commenter responed to this question

0 No Comment on this question

PT1 Total of responses to the questions of first part of the Discussion Paper

CL# Consecutive number given by the IASB on ist homepage

#CL	Pages	**Supervisors**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
148	36	International Association of Insurance Supervisors (IAIS)	Switzerland	1	1	1	1	1	1	1	1	1	9
143	20	Committee of European Insurance and Occupational Pensions Supervisors	Germany	1	1	1	1	1	1	1	1	1	9
159	14	The IFRS Monitoring Panel in Thailand	Thailand	1	1	1	1	1	1	1	1	1	9
154	36	Australian Prudential Regulation Authority	Australia	0	0	0	0	0	0	0	0	0	0
55	6	CEBS - Committee of European Banking Supervision	England	0	0	0	0	0	0	0	0	0	0
156	5	Office of the Superintendent of Financial Institutions Canada	Canada	0	0	0	0	0	0	0	0	0	0
33	4	Basel Commitee on Banking Supervision	Switzerland	0	0	0	0	0	0	0	0	0	0
7	121			3	3	3	3	3	3	3	3	3	27

1	Commenter responed to this question
0	No Comment on this question
PT1	Total of responses to the questions of first part of the Discussion Paper
CL#	Consecutive number given by the IASB on ist homepage

#CL	Pages	**Financial Service Providers**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
157	27	BNP Paribas	France	1	1	1	1	1	1	1	1	1	9
110	22	HSBC Holding	England	1	1	1	1	1	1	1	1	1	9
44	22	AMP Limited	Australia	1	1	1	1	1	1	1	1	1	9
76	21	Hartford Financial Services Group Inc.	USA	1	1	1	1	1	1	1	1	1	9
72	17	FirstRand Group Technical Accounting	South Africa	1	1	1	1	1	1	1	1	1	9
1	17	Manulife Financial	Canada	1	1	1	1	1	1	1	1	1	9
27	13	Fitch Rating	England	1	1	1	1	1	1	1	1	1	9
60	11	BBA - British Bankers’ Association	England	1	1	1	1	1	1	1	1	1	9
2	10	Towers, Perrin, Forster & Crosby Inc.	England	1	1	1	1	1	1	1	1	1	9
56	9	Sun Life Financial	Canada	1	1	1	1	1	1	1	1	1	9
26	14	Fiarfax Financial Holding Limited	Canada	1	1	1	1	1	0	0	1	1	7
68	5	Standard & Poor's	England	0	1	0	0	0	0	1	0	0	2
36	4	Principal Financial Group	USA	0	1	0	0	0	0	1	0	0	2
80	12	International Swaps and Derivatives Association Inc.	England	1	0	0	0	0	0	0	0	0	1
57	5	Merril Lynch	England	0	1	0	0	0	0	0	0	0	1
50	1	Bank of Ireland	Ireland	0	1	0	0	0	0	0	0	0	1
41	10	European Federation of Financial Analysts’ Societies (EFFAS)	Germany	0	0	0	0	0	0	0	0	0	0
152	6	European Banking Federation	Belgium	0	0	0	0	0	0	0	0	0	0
100	5	Financial Security Assurance Holding Ltd.	USA	0	0	0	0	0	0	0	0	0	0
25	4	London Invesment Banking Association	England	0	0	0	0	0	0	0	0	0	0
9	3	Morgan Stanley	USA	0	0	0	0	0	0	0	0	0	0
21	238			12	15	11	11	11	10	12	11	11	104

1 Commenter responed to this question
0 No Comment on this question
PT1 Total of responses to the questions of first part of the Discussion Paper
CL# Consecutive number given by the IASB on ist homepage

#CL	Pages	**Others**	Country	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	PT1
3	19	Assuris	Canada	1	1	1	1	1	1	1	1	1	9
160	14	Felipe Perez Cervantes	Mexico	1	1	1	1	1	1	1	1	1	9
98	12	G100 - Representation of CFO's Australia's largest business enterprises	Australia	1	1	1	1	1	1	1	1	1	9
91	12	ACTEO, MEDEF & AFEP (Groups of French Companies)	France	1	1	1	1	1	1	1	1	1	9
42	4	Jeremy Pearcy	England	1	1	1	1	1	0	0	1	1	7
18	9	Annmarie Hagan	USA	1	0	1	1	0	1	0	1	1	6
65	6	Alan Zimmermann	USA	0	1	0	1	1	0	1	1	1	6
11	49	London School of Economics	England	0	0	0	0	0	0	0	0	0	0
107	6	British American Tabacco	England	0	0	0	0	0	0	0	0	0	0
43	5	Johan van Zyl Smit	na	0	0	0	0	0	0	0	0	0	0
19	5	Royal Australian Automobile Clubs	Australia	0	0	0	0	0	0	0	0	0	0
81	4	Godfrey Wanyoike	na	0	0	0	0	0	0	0	0	0	0
155	4	Hundred Group of Finance Directors	England	0	0	0	0	0	0	0	0	0	0
96	3	The Old Brew House	England	0	0	0	0	0	0	0	0	0	0
37	2	Pace University, New York	USA	0	0	0	0	0	0	0	0	0	0
52	2	Swiss Holding	Switzerland	0	0	0	0	0	0	0	0	0	0
38	1	Daniel F. Case	na	0	0	0	0	0	0	0	0	0	0
103	1	Quoted Companies Alliance	England	0	0	0	0	0	0	0	0	0	0
18	158			6	6	6	7	6	5	5	7	7	55

1	Commenter responed to this question
0	No Comment on this question
PT1	Total of responses to the questions of first part of the Discussion Paper
CL#	Consecutive number given by the IASB on ist homepage

Appendix II - Abstract (English)

The International Accounting Standards Board is currently working on many projects to improve international accounting. One of those projects is about the treatment of “Insurance Contracts” and will result in a single standard which will have to be applied on insurance contracts. As one step of the ongoing project the IASB issued a Discussion Paper – “Preliminary Views on Insurance Contracts”. The next step of the project was to receive comment letters from the general public. Overall the IASB received 162 comment letters with a total amount of 2,114 pages.

At first this thesis gives an insight into the first half of the topics in discussion of this paper. Due to the extent of the whole topic of accounting on insurance contracts there was a split into two halves. These topics of the first half of the Discussion Paper are split into: “Recognition and Derecognition”, “Measurement – Core Issues” and “Policyholder Behaviour”. In order to provide an introduction on the ongoing discussion and the specific points to be considered these specific topics will be described.

However the larger part of this thesis focuses on the comments on the topics in discussion. To make a distinction between the different kinds of commenters there were seven different groups identified in order to find different points of view. The identification criterion for the different submitters was their standing point regarding accounting on insurance contracts. The groups are: insurers, actuaries, accounting profession, standard setter, supervisors, financial service providers and others. The three chapters of the first part of this thesis are further split into nine specific questions which were explicitly asked by the IASB in the Discussion Paper. The responses to these questions are treated by every single group in order to find an overall opinion and to work out different views.

Appendix III – Abstract (German)

Das International Accounting Standards Board arbeitet derzeit an vielen Projekten um internationale Rechnungslegung zu verbessern. Eines dieser Projekte behandelt Versicherungsverträge und wird in einen Standard resultieren, welcher auf Versicherungsverträge angewendet werden soll. Als ein Schritt in der Entwicklung dieses Standards veröffentlichte das IASB das Diskussionspapier „Preliminary Views on Insurance Contracts“. Der nächste Schritt in diesem Projekt war es Kommentarbriefe von der Öffentlichkeit zu erhalten. Insgesamt erhielt das IASB 162 Kommentarbriefe mit einem Gesamtseitenumfang von 2.114 Seiten.

Zuerst gibt diese Magisterarbeit einen Einblick in die Themen der ersten Hälfte des Diskussionspapiers. Aufgrund des Umfanges des gesamten Themas Versicherungsrechnungslegung wurde das Thema geteilt. Die Themen der ersten Hälfte teilen sich in: “Recognition and Derecognition”, “Measurement – Core Issues” und “Policyholder Behaviour”. Um eine Einleitung über die laufende Diskussion und die speziellen Themen bereitzustellen werden diese Themen behandelt.

Jedoch konzentriert sich der Großteil dieser Magisterarbeit auf die Kommentarbriefe zu diesen Themen. Um die verschiedenen Arten von Kommentatoren zu unterscheiden gibt es sieben verschiedene Gruppen um dann deren verschiedene Ansichten zu finden. Das Kriterium für die Zuteilung in eine Gruppe war der Standpunkt in Hinsicht auf Versicherungsrechnungslegung. Diese Gruppen sind: insurers, actuaries, accounting profession, standard setter, supervisors, financial service providers und andere. Die drei Kapitel der ersten Hälfte der Magisterarbeit wurde weiters in die neun vom IASB explizit gestellten Fragen unterteilt. Die Antworten auf diese Fragen werden für jede einzelne Gruppe dargestellt um eine generelle Meinung zu finden und um Unterschiede herauszuarbeiten.

Lebenslauf

Persönliches

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Ausbildung

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Schulisch

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