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MAGISTERARBEIT

Titel der Magisterarbeit

“The commenters’ views on the second half of the
discussion paper ‘Insurance Contracts’”

Verfasserin

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angestrebter akademischer Grad

Magistra der Sozial- und Wirtschaftswissenschaften
(Mag. rer. soc. oec.)

Wien, im Oktober 2011

Studienkennzahl lt. Studienblatt:

A 066 915

Studienrichtung lt. Studienblatt:

Magisterstudium Betriebswirtschaft

Betreuer:

Univ.-Prof. Dr. Otto A. Altenburger

Special thanks to Alice & Wolfgang.

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List of abbreviations

BC	Basis for Conclusions
cf.	Compare (<i>abbreviation of Latin 'confer'</i>)
CAPM	Capital Asset Pricing Model
CEV	Current Exit Value
CL	Comment Letter
DP	Discussion Paper
ED	Exposure Draft
e.g.	for example (<i>abbreviation of Latin 'exempli gratia'</i>)
IAS	International Accounting Standard
IASB	International Accounting Standards Board
i.e.	that is (<i>abbreviation of Latin 'id est'</i>)
IFRS	International Financial Reporting Standard
IN	Introduction
FASB	Financial Accounting Standards Board
FAQ	Frequently Asked Questions
na	not available
p.	page
par.	paragraph
Q	Quarter / Question
SFAC	Statement of Financial Accounting Concepts
US GAAP	United States Generally Accepted Accounting Principles

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1. Introduction

1.1. Aim of the thesis

The discussion paper (DP) “Preliminary Views on Insurance Contracts” issued by the International Accounting Standards Board (IASB) in May 2007 builds the basis for this thesis. The DP contains the board’s preliminary views on “*the main components of an accounting model for insurance contracts*”¹. The board gave the public the possibility to respond to this by integrating into the paper 20 specific questions and 1 additional question for other comments. The answers to these questions and general comments are called “comment letters”. Although in the meantime further progress within the IASB’s project “insurance contracts” has been made, the DP from 2007 was the first and biggest step towards building a new and extensive standard on insurance contracts. The recently existing exposure draft is also based on the preliminary views published in the DP and the comments on these.² For that reason this thesis focuses on the paper from 2007. Besides the presentation of the DP’s contents, the focus of the thesis lies on the analysis of the comment letters. So the aim is to summarize the main propositions of the DP and to identify the commenters’ general opinions on these propositions.

To make the highly number-focused analyses more readable, all numbers throughout the thesis are denoted in digits. Exceptions from this arrangement are technical terms, direct quotations and common phrases, e.g. on the one hand.

1.2. Separation from the first half of the discussion paper

Because of the high number of responses to the DP the work and analysis of all comment letters would have been too extensive for a single master thesis. Due to this the topics of the DP were split into 2 parts linked to its 6 main chapters. The first half deals with the topics recognition and derecognition, the measurement of liabilities and the affects of policyholders’ behaviour.³ This analysis can be found in

¹ DP – Part 1, par. IN1.

² References to further IASB regulations and standards are made to their version effective at the time the DP was published (May 2007).

³ cf. Höglinger (2010), p. 1.

the master thesis “The Commenters’ Views on the First Half of the Discussion Paper ‘Insurance Contracts’”, by Thomas Höglinger, University of Vienna.

The present thesis is about the second half of the topics covered in the DP “Preliminary Views on Insurance Contracts”: other issues of measurement, policyholder participation and changes in insurance liabilities. These contents are discussed in chapters 5 to 7 and questions 10 to 21 in the DP.

1.3. IASB project “Insurance Contracts”

1.3.1. Contents overview

The board’s reason to start the project “Insurance Contracts” was that there was no existing standard on insurance contracts and that it was also not covered satisfyingly by other existing standards, i.e. the respective International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS) on financial instruments. Also the accounting practices in regard to insurance contracts are very divers among countries and so the reporting is difficult to compare.⁴

First concrete steps were taken in 1997 by setting up a steering committee. After a report in 2001 the IASB added this project to its agenda and split it into 2 phases.⁵ The splitting should give insurers the possibility to use the results of the first phase already in their financial statements for 2005.⁶

Phase I was completed by issuing the interim standard IFRS 4 “Insurance Contracts” in 2004.⁷ Right after this phase II started. The focus in this phase is to improve the existing standard. Regulations that have been set so far build the basis for the board’s further decisions, but the board does “*not feel bound by it*”⁸. This means that if the board finds reasonable arguments to change or replace existing regulations, it is possible to introduce completely new approaches.

⁴ cf. IASB Homepage: IFRS 4 Insurance Contracts – FAQ (19/07/2004), p. 3.

⁵ cf. IASB Homepage: Project History.

⁶ cf. IASB Homepage: IFRS 4 Insurance Contracts – FAQ (19/07/2004), p. 3.

⁷ cf. IASB Homepage: Project History.

⁸ IASB Homepage: IFRS 4 Insurance Contracts – FAQ (19/07/2004), p. 18.

In 2004 also the “Insurance Working Group” was formed to support the board in creating a comprehensive standard. This group consist of representatives from the insurance industry, accountants, actuaries and financial statements’ addressees.⁹

One of the most important steps of the project was certainly to create the DP “Preliminary Views on Insurance Contracts” issued in May 2007. This paper contains the board’s views formed in phase II of the project. The board gave the public the possibility to comment on this DP until 16 November 2007. This paper was so important because with it the IASB introduced a new approach for measuring the cash flows of insurance contracts – the three building blocks. Besides, in August 2007 the Financial Accounting Standards Board (FASB, American complement to the IASB) started an invitation for comments whether it should add a joint project with the IASB to its agenda.¹⁰ From this time on, the IASB and the FASB have been discussing various issues on insurance contracts together. This showed the willingness of the FASB to converge to standards of the IASB. At the time this thesis was written, the cooperation of the boards has still been in progress. As there have been no worldwide consistent accounting standards, future approximations between America and IFRSs-using countries could help to introduce consistent standards.

1.3.2. Current state of the project

1.3.2.1. Project overview

Since 1997, first considerations on a standard for insurance contracts had been made. A steering committee was set up to do initial work on the project. The IASB was formed in 2001 and took over the project. In 2002 it was decided to split the project into 2 phases.¹¹

The first phase was about to set up a preliminary standard. This happened by issuing the IFRS 4 “Insurance Contracts” in March 2004. Phase I therefore was successfully completed and phase II started.¹²

⁹ cf. *Widmann* (2006), p. 1840.

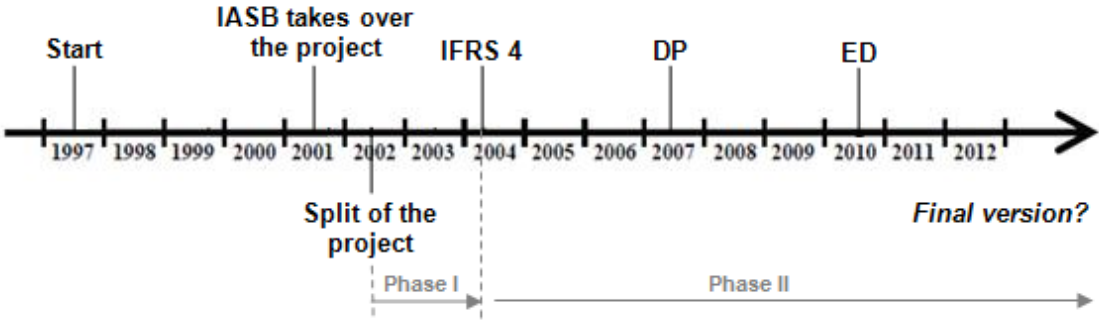
¹⁰ cf. IASB Homepage: Project History.

¹¹ cf. IASB Homepage: Project History.

¹² cf. IASB Homepage: Project History.

The target of phase II is to improve and further develop the existing standard. The timetable below shows that the project is now already in the final spurt before the standard will be published.

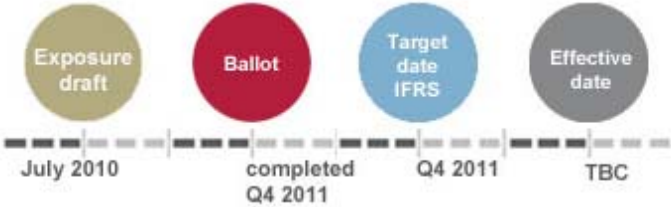
Figure 1: Project timetable



Source: own illustration following IAA Homepage

Between 2004 and 2007, the board developed the DP published in 2007. After analysing the comment letters, the IASB set up the following milestones for the final steps within the project:

Figure 2: Last project milestones



Source: IASB Homepage – Insurance Contracts

After the publishing of the DP in 2007, the board did not only review the comments. There was also a field test conducted in phase II. In the end of 2009, the first round of the field test was finished and its results were also considered in the exposure draft. The second round took place between September 2010 and January 2011. It tested the proposals made in the exposure draft.¹³ Preliminary results have been reported in March 2011, but the evaluation of the second round of the field test was still in progress the time this thesis was written.

¹³ cf. IASB Homepage: Field tests: preliminary report.

1.3.2.2. Events since the work on the first half of the discussion paper

The exposure draft was published in July 2010. It *“proposes a single International Financial Reporting Standard (IFRS) that all insurers, in all jurisdictions, could apply to all contract types on a consistent basis”*¹⁴. In January 2011, the board started to review the comments on the exposure draft and also continued the review of the comments on the DP from 2007.¹⁵

For the third or fourth quarter of 2011 a ballot about the standard is planned. The ballot is a formal process to get the board’s approval for publishing a document, in this case the IFRS for insurance contracts. Each member has 1 vote. If there is enough support, the standard gets prepared for publication.¹⁶ Hence, the publication of the final version of the standard for insurance contracts is planned for the end of 2011.

It is not sure yet when exactly the effective date of the final standard version for insurance contracts will be. Usually it is about 6 to 18 months after the publication.¹⁷ Currently the board is also still reviewing the comment letters received as response to the DP and the exposure draft.

In September 2011 the IASB and FASB had their last meeting. They continued their discussion on disclosure requirements and risk adjustment. Further, the FASB reported their decisions on the single margins approach.¹⁸

As this work focuses on the contents of and responses to the DP “Preliminary Views on Insurance Contracts”, the described developments after the deadline for commenting on this DP are not relevant for the aim the thesis.

¹⁴ IASB Homepage: Insurance Contracts.

¹⁵ cf. IASB Homepage: Project History.

¹⁶ cf. IASB Homepage: IASB Work Plan, p. 2.

¹⁷ cf. IASB Homepage: IASB Work Plan, p. 2.

¹⁸ cf. IASB Homepage: Insurance Contracts.

1.3.2.3. Exposure draft ED/2010/8

As mentioned above, the issuing of the exposure draft in July 2010 was one of the most important milestones of the remaining project. Its aim is to replace the existing IFRS 4 with a new standard that matches the financial statements preparers' needs. Therefore the board used the input from the DP "Insurance Contracts" and its comment letters, the field tests and the Insurance Working Group.¹⁹

The exposure draft is still not the final version of the standard. As for the DP, there was a possibility for the public to comment on the board's views in the exposure draft. The deadline was 30 November 2010. Even more comment letters than for the DP were sent this time. A total of 248 comments was sent to the board.²⁰

A detailed summary of the exposure draft's content would exceed the extent of this thesis, but in the paragraphs below the most important and controversial parts will be outlined. Generally, the exposure draft contains "*proposals on the recognition, measurement, presentation and disclosure of insurance contracts*"²¹.

According to the IASB, the exposure drafts offers:

- *"Unified accounting for all insurance contracts*
- *Improvements to financial reporting*
- *A principle-based standard that reflects the economics of insurance contracts*"²².

These aims are generally considered positive. But there is also come criticism. There can still be identified some accounting mismatches, like the ratio from valuation of financial instruments and the recognition of underwriting liabilities.²³ An example is the fair value inclusion. The advantage is that the fair value measurement provides values that are close to the market. Unfortunately this also causes high volatility and

¹⁹ cf. IASB Homepage: Snapshot: Insurance Contracts, p. 3.

²⁰ cf. IASB Homepage: Exposure Draft Comment Letters.

²¹ IASB Homepage: Snapshot: Insurance Contracts, p. 1.

²² IASB Homepage: Snapshot: Insurance Contracts, p. 3.

²³ cf. *Bonin / Kreeb* (2011), p. 194.

therefore value fluctuations. But as the underlying business model is set up on a long-term basis these value fluctuations should be balanced in the course of time.²⁴

Problems can also occur with the reliability of information relating to the present value. Because cash flows and risk margins used for the present value are based on estimations, it is controversial whether it offers enough concrete and reliable information.²⁵

There are some inconsistencies with other standards like IAS 39 and IFRS 9 for financial instruments concerning the valuation. For these it is also possible to report at amortised costs. The exposure draft does not allow this possibility.²⁶

Generally, in a lot of European countries, the IFRSs are directly affecting only consolidated financial statements, whereas unconsolidated statements are usually in accordance to national requirements. So the planned introduction of “Solvency II” may be problematic. “Solvency II” is a set of regulations on capital requirements for all European insurance companies and involves valuation of the financial status. For this, valuation consistency with international standards is intended. So at least the regulations of the IFRS for insurance contracts will also affect unconsolidated financial statements.²⁷

Finally transitional regulations of the exposure draft have been criticised. For measuring existing liabilities, the three building blocks model has to be used without considering a residual margin. This may lead to a disclosure of hidden reserves.²⁸

Some of these critical points already appeared within the board’s preliminary views in the DP “Insurance Contracts”. The board tried to improve controversial issues of the DP through analysing the comments and integrating the commenters’ views into the exposure draft. There are still some topics that need to be discussed, but issuing the

²⁴ cf. *Kaindl* (2011), p. 3 – 4; *Bonin / Kreeb* (2011), p. 194.

²⁵ cf. *Kaindl* (2011), p. 4.

²⁶ cf. *Kaindl* (2011), p. 4.

²⁷ cf. *Kaindl* (2011), p. 4.

²⁸ cf. *Bonin / Kreeb* (2011), p. 195.

exposure draft ED/2010/8 was a big step on the way to a final standard for insurance contracts.²⁹

1.4. Allocation of questions to the chapters of the discussion paper

Parts of the comment letters refer to the questions posed in the DP. General comments may still refer to specific chapters. The following summary should make it easier for the reader to allocate the questions to the chapters of the DP. Especially for the chapters **2. The topics of the second half of the discussion paper** and **3. The comments on the second half of the discussion paper** the table mentioned below provides an overview over all contents. It should be noted that the focus of these chapters is only on the second half of the DP. This includes the chapters 5 to 7 respectively questions 10 to 21 of the DP.

²⁹ cf. *Bonin / Kreeb* (2011), p. 195.

Figure 3: Overview – chapters and questions of the DP

Chapter	Main content	Questions	More details
Chapter 1 Background	- scope of the DP	-	<p>“The Commenters’ Views on the First Half of the Discussion Paper ‘Insurance Contracts’”, master thesis by Thomas Höglinger</p> <p>Chapters:</p> <p>2 Topics of the First Half of the Discussion Paper</p> <p>3 The Comments on the First Half of the Discussion Paper</p> <p>Chapters:</p> <p>2. Topics of the second half of the discussion paper</p> <p>3. The comments on the second half of the discussion paper</p>
Chapter 2 Recognition and derecognition	- (de)recognition of rights and obligations	Q1	
Chapter 3 Measurement – core issues	- measuring methods for insurance liabilities - the three building blocks	Q2 – Q5	
Chapter 4 Policyholder behaviour, customer relationships and acquisition costs	- guaranteed insurability - assets related to insurance liabilities and its measurement and presentation	Q6 – Q9	
Chapter 5 Measurement – other issues	- unit of account for risk margins - measurement of reinsurance assets - treatment of contracts with insurance and deposit components - disclosure of credit characteristics - differences concerning investment contracts	Q10 – Q15	
Chapter 6 Policyholder participation	- estimating cash flows - considering possible obligations - participating liabilities	Q16 – Q17	
Chapter 7 Changes in insurance liabilities	- presentation of premiums - presentation of changes in insurance liabilities	Q18 – Q20	
-	- other matters	Q21	

Source: own illustration

1.5. The comment letters

1.5.1. General information about the comment letters

When issuing the DP the board also invited the public to comment on it. The deadline to do so was 16 November 2007. So the commenters had about 6 months to respond.

The respondents were asked to comment on all matters of the DP. But especially they were asked to answer to the specific questions posed in each chapter of the DP. To make their letters most helpful, the board also encouraged the commenters to describe alternatives if they do not like the suggested methods in the DP.³⁰

A total of 162 comment letters arrived. There were 4 comment letters that did not receive in time and were not taken into consideration when the board analyzed the comments. So the board counted 158 comment letters for their purpose.³¹

For the purpose of this thesis it is not essential whether the comment letters arrived in time or not. As already done in the first part, the whole number of 162 comment letters are considered to reflect the submitters' opinion on the DP.³²

Because the number of responses is that high the comments were split into groups. The groups relate to different kinds of submitters of the letters.

1.5.2. Procedure of grouping the commenters

This thesis ties up to the evaluation of the first half and hence uses the same grouping. The grouping follows Thomas Höglinger in his master thesis "The Commenters' Views on the First Half of the Discussion Paper 'Insurance Contracts'" and identifies the following 6 groups:³³

- insurers,

³⁰ cf. DP – Part 1, par. IN8.

³¹ cf. IASB Homepage: Comment Letters.

³² cf. Höglinger (2010), p. 24.

³³ cf. Höglinger (2010), p. 25 – 26. The grouping was conducted with regard to the commenters' point of view concerning insurance contracts.

- actuaries,
- accounting profession (including chartered public accountants, auditors and similar institutions),
- standard setters,
- supervisors and
- financial service providers.

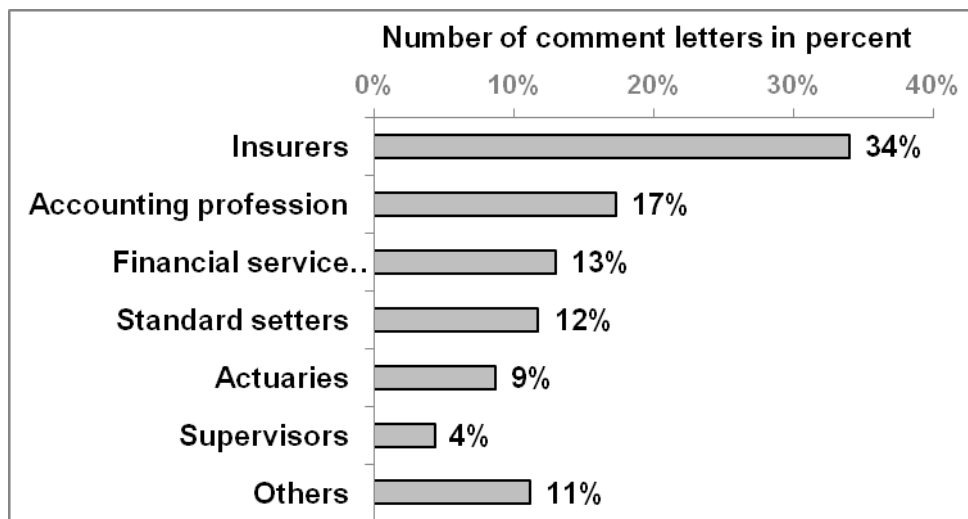
Finally, 18 non-classifiable letters were consolidated under the additional group called others.³⁴ Details and a formal analysis of the groups are given in the next chapter.

1.5.3. Formal analysis of the comment letters

1.5.3.1. Analysis with respect to the groups of commenters

The first formal analysis gives an overview to the groups of commenters and how many comment letters were sent per group.

Figure 4: Number of comment letters per group



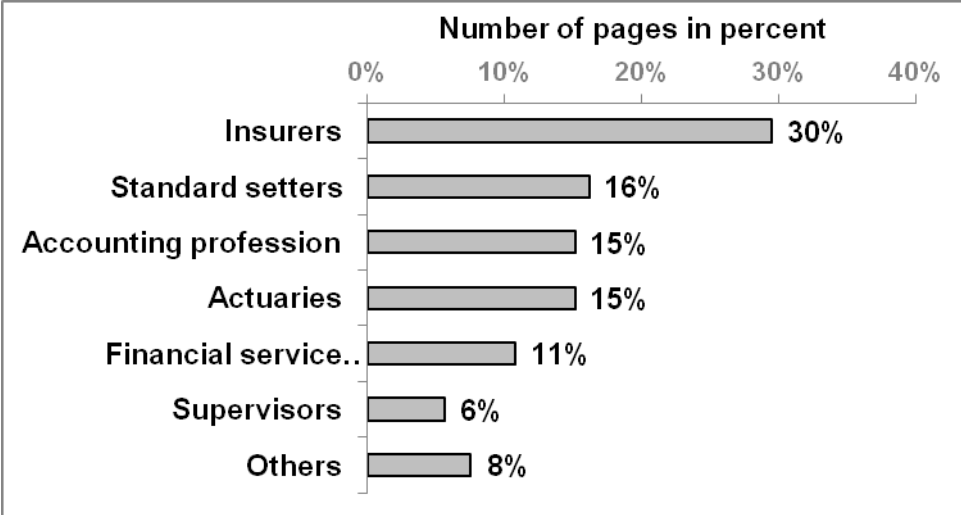
Source: own illustration

Altogether 162 comment letters were received. Figure 4 shows that about a third of them (in total 55) were hand in by the group of insurers. Also, many representatives of the accounting profession and financial service providers commented on the DP.

³⁴ cf. Höglinger (2010), p. 25.

But this does not mean that these groups also handed in the most extensive comments. The next graph shows the number of pages that were handed in per group:

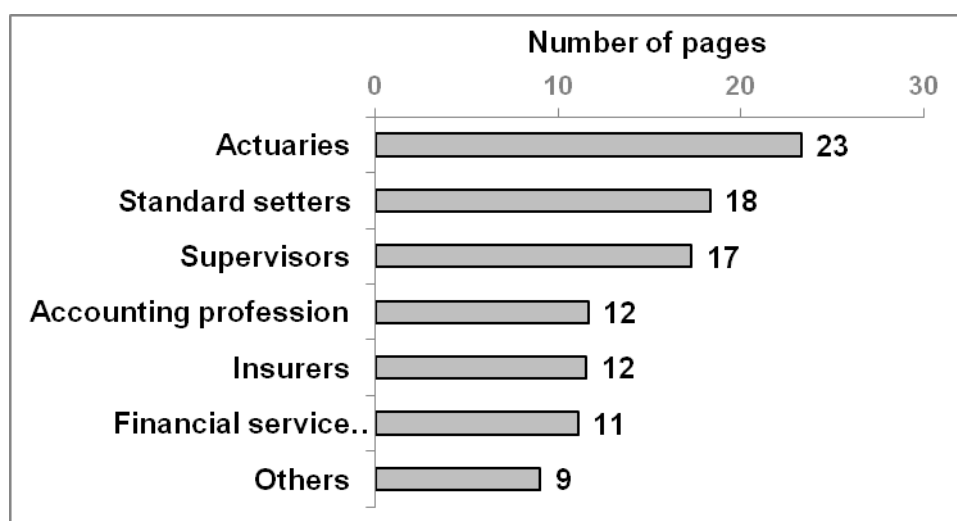
Figure 5: Number of pages per group



Source: own illustration

At first sight the figures do not differ that much. Again, about a third of the 2,151 pages were handed in by representatives of insurers. Also in both cases, the supervisors present the smallest percentage. For the groups of accounting profession and financial service providers the numbers of both figures are pretty much the same. Only the groups of standard setters and actuaries show a bigger distinction between the number of comment letters and the number of pages. The difference between the number of letters sent per group and the number of pages written per group becomes clearer when comparing the average number of pages per letter received between the groups:

Figure 6: Average number of pages per letter per group



Source: own illustration

Although insurers handed in the most comment letters, their comments weren't that extensive. In average, a letter from a representative of the group of insurers had 12 pages. Representatives of the accounting profession and actuaries both handed in 326 pages (this equals 15%, see Figure 5). But as the total amount of comment letters sent by actuaries is only 14, a letter from this group had in average 23 pages. In this group also the letter with the most pages can be found: comment letter number 89 with 57 pages by "The UK Actuarial Profession".

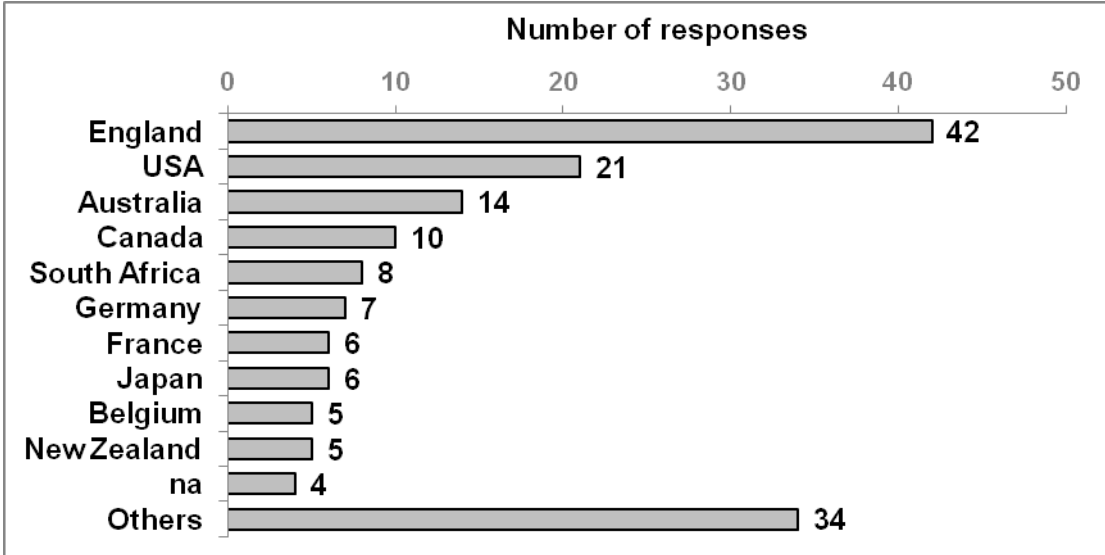
As conclusion it can be said that the groups with the highest number of comment letters sent (insurers, accounting profession) seem to be very interested in the design of the new IFRS 4. Representatives of the group of actuaries gave the most extensive feedback. So, for content analysis not only the number of comment letters and pages but also the number of pages per letter within a group is an indicator of how important the issues of the DP are to a particular group.

1.5.3.2. Analysis with respect to geographical characteristics

The next graph shows the number of comment letters sent per country. The group of others contains countries from where less than 5 letters were hand in. To this group belong Austria, Bermuda, Brazil, China, Denmark, Ireland, Italy, Korea, Malaysia, Mexico, Netherlands, Norway, Scotland, Singapore, Spain, Sweden, Switzerland and Thailand. The category "na" includes letters where the country of origin could not be

identified because the addressers details were missing or because the commenter is operating internationally and cannot be allocated to a specific country.

Figure 7: Number of responses per country



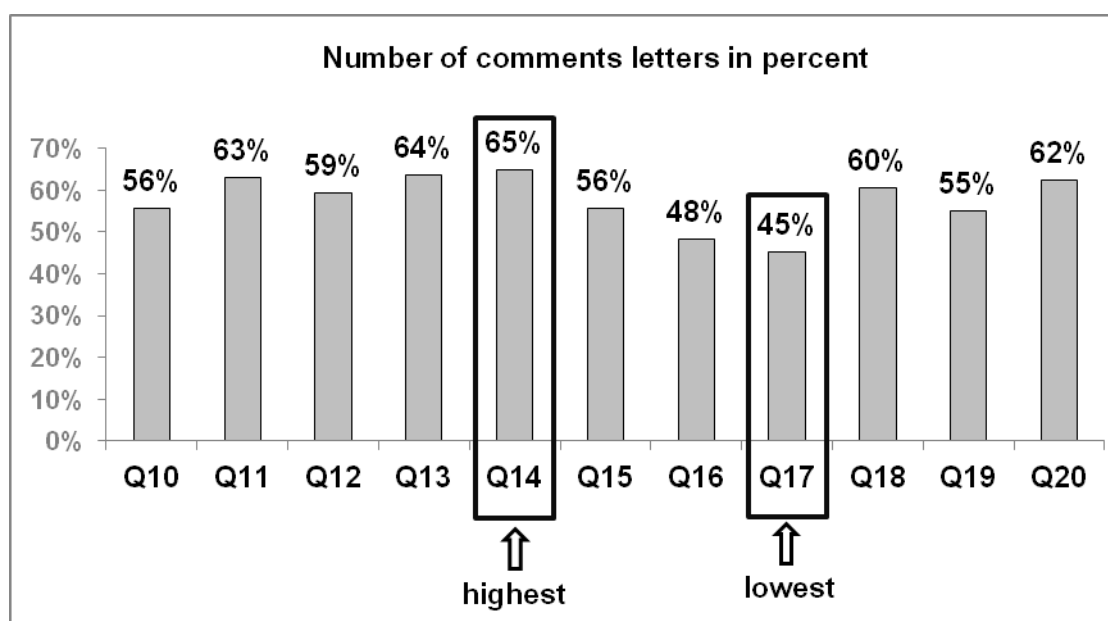
Source: own illustration

It can clearly be seen that the Anglo-American countries commented the most on the DP. There are already more comment letters from England alone than from all other countries that sent less than 5 comment letters together. Also non-European countries like Australia and South Africa showed big interest and sent a noticeable number of comment letters.

1.5.3.3. Analysis with respect to individual questions

As the aim of this thesis is to evaluate the comments especially with respect to the questions posed in the DP, it is interesting to see which questions have often been answered to and which not. The following analysis only refers to the second half of the DP. To be consistent with the content analysis given in chapter 3 of this thesis, answers that only refer indirectly to a specific question are also taken into consideration.

Figure 8: Number of comments referring to specific questions



Source: own illustration

The topics in Q14 and Q13 are apparently most important to the commenters. Almost two thirds of all comment letters answered directly to these questions. Both questions belong to chapter 5 “Measurement – other issues” of the DP. Their issues are unbundling of insurance contracts and the measurement of insurance liabilities.

Q17 and Q16 were the most infrequently addressed specific topics. These questions apply to chapter 6 “Policyholder participation” of the DP and the evaluation of cash flows. Thus this chapter seems to be less important for the commenters.

There is no question *all* representatives of a group of commenters answered to. But the group of standard setters had at least 3 questions (Q11, Q13, Q14) to which 18 out of 19 representatives answered directly. Also the group of insurers focused the most on Q14. The interesting thing is that all of these questions belong to chapter 5 “Measurement – other issues” of the DP. A similar proposition can be made about most of the other groups, where the highest answer-participation can also be found in this chapter. Only the group of financial service providers does not only concentrate on the question in this chapter but also on Q18 and Q20 in chapter 7 “Changes in insurance liabilities” of the DP. This shows that within the second half of the DP, for the commenters the most important chapters of the DP to discuss were chapter 5 “Measurement – other issues” and chapter 7 “Changes in insurance liabilities”.

Q21 gave the possibility for other comments on the DP. It is not included in this graph because all commenters included at least some kind of further comments on the DP and hence, the number of comments referring to this question would be about 100%. Moreover, the comments on Q21 addressed various issues and do not represent a specific topic or area. Thus, the rate of responses to this question does not give any helpful information.

2. The topics of the second half of the discussion paper

2.1. Introduction

The DP “Preliminary Views on Insurance Contracts” consists of 2 parts. The first part is about the board’s preliminary views on insurance contracts. This covers the main text and the invitation to comment on the paper. The second part includes the appendices to the main text. These are the questions for respondents, a comparison with IAS 39, other relevant IASB projects, issues not covered in this DP, details to some topics in the main text and several examples.

The main text has 7 chapters of which 6 contain the board’s preliminary views. The first chapter is an introductory chapter. For the work on this thesis the remaining chapters are split into 2 halves. The second half of the DP involves the chapters 5 to 7 and will be described in the following.

2.2. Measurement – other issues

2.2.1. Assets backing insurance contracts

The core issue of measurement is treated in chapter 3 and discusses the three building blocks model. In the chapter “Measurement – other issues” some more related issues are covered. Most of these topics are independent from each other.³⁵ An example of them is the occurring problem of accounting mismatches in asset backing insurance contracts. A main objective of phase II of the project is to eliminate those mismatches. For this purpose it is important to distinguish economic from accounting mismatches.³⁶

In the DP the following definitions are given:³⁷

- Economic mismatches arise if changes in economic conditions lead to different changes in the values of assets and liabilities. Also cash flows from assets or liabilities may respond differently to economic changes.

³⁵ cf. DP – Part 1, par. 175.

³⁶ cf. DP – Part 1, par. 176.

³⁷ cf. DP – Part 1, par. 177.

- Accounting mismatches occur if economic changes affect assets and liabilities in the same way. But the carrying amounts of them do not respond equally to the changes.

The main reason for accounting mismatches in phase I is that the measurement of insurance liabilities and interest-bearing financial assets does not fit together. While the basis for insurance liabilities does not reflect the current interest rate, for the according financial assets the fair-value method is used. Therefore interest rate changes do lead to changes in the carrying amount of the assets, but not of the liabilities. This leads immediately to an accounting mismatch in the income statement and the balance sheet for at fair value through profit or loss classified financial assets. For available-for-sale financial assets and assets carried at amortised costs the accounting mismatch occurs when selling the assets.³⁸

The board thinks that an ideal measurement model should avoid accounting mismatches and report economic mismatches. For this purpose the board considered cost-based approaches and current estimate approaches. Although there are some arguments for using cost-based approaches, the board thinks that current estimate approaches give more reliable and relevant information to the users.³⁹

Some of the board's arguments in favour of current estimate approaches are:⁴⁰

- Current market conditions are reflected.
- As accounting mismatches occur mainly from insufficient measurements of insurance liabilities, it is important to use the method that gives the best information about insurance liabilities. Current estimate approaches give the most relevant and reliable information.
- Cost-based approaches eliminate accounting mismatches only when obscuring economic mismatches, which would not advance the relevance and reliability of the financial statements.

³⁸ cf. DP – Part 1, par. 178.

³⁹ cf. DP – Part 1, par. 179 – 180.

⁴⁰ cf. DP – Part 1, par. 180.

- Japan introduced a precedent for measuring assets at amortised costs. But this precedent also has some disadvantages, e.g. when using this option, significant documentation and internal control systems are required.
- The board's long-term objective is to measure all financial instruments at fair value.

The board expects the insurers to use options to mitigate accounting mismatches like to classify financial assets at fair value through profit or loss and to use the fair value model for investment property if possible. But the board does not require insurers to do so. In this project, the board does not want to change existing IFRSs. So for some assets it will still not be possible to be classified at fair value through profit or loss.⁴¹

2.2.2. Unit of account

2.2.2.1. Defining the unit of account

There are some different definitions for what a unit of account should be. The board prefers the description used in IFRS 4 referring to a *“portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio”*⁴².

2.2.2.2. Recognition and measurement

The board comes to the conclusion that the unit of account does not affect recognition issues. But measurement may be important considering the unit of account. Insurers generally measure their obligations and rights from insurance contracts on a portfolio basis. This may differ from a contract-by-contract measurement. So the question is: does the unit of account influence the expected present value of future cash flows and risk margins, and how should it be determined considering these effects?⁴³

2.2.2.3. Expected present value of future cash flows

The expected present value of future cash flows of a portfolio can also be defined as the sum of the expected cash flows of the individual insurance contracts. For some

⁴¹ cf. DP – Part 1, par. 181 – 182.

⁴² DP – Part 1, par. 199;

⁴³ cf. DP – Part 1, par. 184 – 185.

kind of estimates it can be easier to determine the value on a portfolio basis. Principally, there should be no difference to simply aggregating the estimates of the individual contracts. This is why the unit of account has no effect on measurement as far as all relevant information, including incremental expenses, is incorporated in the estimated amount.⁴⁴

2.2.2.4. Risk margins

There are 2 possibilities to assess risk margins. 1 of them is to determine them for each individual contract and then aggregate them, and the other is to determine risk margins immediately on an aggregated basis.⁴⁵ Aggregation can be processed typically in 3 different ways:⁴⁶

- Pooling of risk: contracts with similar risk characteristics are pooled into homogenous groups.
- Diversification of risk: a group of different risks that will compensate each other on average.
- Hedging of risk: risks with negative correlation to each other are aggregated to offset unfavourable developments of certain objects.

This leads to the possibility of a portfolio's risk margin being smaller than the sum of risk margins of individual contracts or smaller portfolios.⁴⁷ Concerning this there are some important factors to be considered:⁴⁸

- Statistical evidence for small portfolios could be less than for large ones. The measurement of a portfolio should reflect all information about it, not only the kind of information originating within that portfolio. This is why at last insurers use the same statistical evidence, regardless of the level of aggregation.
- Adverse selection can arise when transferring individual contracts. Insurers avoid this and typically only transfer portfolios that form a natural unit. So the risk margin should not include the risk of adverse selection.

⁴⁴ cf. DP – Part 1, par. 186 – 187.

⁴⁵ cf. DP – Part 1, par. 190.

⁴⁶ cf. DP – Part 1, par. 190.

⁴⁷ cf. DP – Part 1, par. 191.

⁴⁸ cf. DP – Part 1, par. 192 – 201.

- Random fluctuations affect small portfolios more than large ones, but it can be reduced because it is a diversifiable risk. Some pricing models, e.g. the Capital Asset Pricing Model (CAPM), only refer to non-diversifiable risks. But when pricing contracts, insurers consider the contracts to be included in a portfolio. To be consistent with that, risk margins should be measured on a portfolio basis including the effects of diversifying risks, i.e. the benefits of pooling within a portfolio.
- Diversification between portfolios and negative correlations between portfolios both lead to benefits for insurers. Depending on the unit of account including both portfolios or not, the risk margin reflects these benefits – or not. As the current exit value (CEV) has to be independent of the holding entity, risk margins should be determined for each portfolio individually without including the effects of diversification between portfolios.

The board's view is that risk margins should be determined on a portfolio basis. A portfolio is defined as the aggregation of insurance contracts with broadly similar risks that are managed together as a single portfolio. Benefits of diversification and negative correlations within portfolios should be reflected within the risk margins. But between portfolios these effects should not be included.⁴⁹

2.2.3. Reinsurance

For reinsurance issues, the measurement basis for liabilities and assets needs to be determined. The board thinks that reinsurance liabilities should – like direct insurance liabilities – be measured at CEV.⁵⁰

Reinsurance assets should also be measured at CEV because the board's preliminary view is that cedants should measure the underlying direct insurance liability at CEV.⁵¹ So the scope of the standard for reinsurance contracts applies to insurers as well as to the insurance holder.⁵²

⁴⁹ cf. DP – Part 1, par. 202.

⁵⁰ cf. DP – Part 1, par. 203.

⁵¹ cf. DP – Part 1, par. 205.

⁵² cf. *Grünberger* (2006), p. 177.

But in conjunction with reinsurance assets and the CEV there are some more aspects to discuss:⁵³

- Margin for risk associated with the underlying insurance contract: Risk margins increase the CEV of reinsurance assets. It is also “*equal in amount to the risk margin for the corresponding part of the underlying insurance contract*”⁵⁴. Payment for a reinsurance contract is only made if the cedant has suffered a loss because of the event of a claim. Because the reinsurance contract pays out when the cedant will most need the money, he is willing to pay more than the expected value for insurance. So the CEV of the reinsurance asset includes the transfer of the reinsurance contract *and* the related underlying contracts.
- Impairment: There are 2 models to reduce the risk of impairment:
 - (a) The incurred loss model where losses are only recognised if there exists evidence for the impairment, and
 - (b) the expected loss model where the carrying amount for expected losses from default or disputes is reduced to include the risk of defaults or disputes exceeding the expected value.The board prefers the expected loss model because it is consistent with the CEV measurement model.
- Gains and losses on buying reinsurance: Distortions may appear if reinsurance contracts do not transfer significant insurance risks. Measuring insurance contracts at CEV will largely avoid those distortions.
- Non-overlapping periods of coverage: If the reinsurance contract does not cover the same period of time as the underlying contract, contractual rights to obtain reinsurance for insurance contracts that have not been issued yet can occur. These rights should be determined at CEV.

2.2.4. Unbundling

Unbundling generally means to split an insurance contract into its components and treat them like different contracts in the financial statements. Insurance contracts always have several components because policyholders pay the premiums in

⁵³ cf. DP – Part 1, par. 206 – 218.

⁵⁴ DP – Part 1, par. 219.

advance which leads to a deposit component. Components of a separate deposit contract may be treated differently because there are different measurement models within IFRSs.⁵⁵

The most relevant models are the CEV (in phase II) for rights and obligations under insurance contracts, the amortised costs or the fair value for financial instruments and the stage of completion of the transaction for revenues from service contracts. These models bear some inconsistencies that cannot be eliminated but at least minimized by separating the deposit and service components – thus unbundling. Also the existing IFRS 4 requires unbundling if the affected components can be measured separately and would otherwise not be recognised.⁵⁶

There are various arguments for and against unbundling. The following table gives an overview thereof:

Figure 9: Arguments for and against unbundling

+	–
insurers and issuers of separate financial instruments account in the same way	the sum of the unbundled values of the components may differ from the value of the underlying product
same accounting for contracts regardless of whether a contract transfers enough risk to be defined as an insurance contract or not	insurance contracts present a package of benefits that cannot be terminated or sold individually
distinction between premium revenue earned for accepting insurance risk and investment or deposit receipts	measurement of deposit components could be arbitrary because of interdependencies between components
-	for information about gross premium flows absolutely all or absolutely no products should be unbundled

Source: own illustration following DP – Part 1, par. 225 – 226

⁵⁵ cf. DP – Part 1, par. 220 – 221.

⁵⁶ cf. DP – Part 1, par. 221 – 224.

The board's view depends on whether the components of the insurance contract are interdependent or not. Interdependent components that cannot be measured separately lead to an application of the phase II standard on insurance contracts to the whole contract. If the components are not interdependent from each other, the phase II standard should be used for the insurance components. The deposit components then should be treated under IAS 39. It can occur that the components are interdependent but nevertheless can be measured separately on a non-arbitrary basis. In this case IAS 39 should apply to the deposit component. The whole contract would be measured under the phase II standard. The difference between these measurements builds the basis for the insurance component.⁵⁷

2.2.5. Credit characteristics of insurance liabilities

When measuring insurance liabilities, the question arises whether the measurement should reflect their credit characteristics or not. There are proponents and arguments in favour of both points of view. For example some argue that adjustments for credit characteristics are not reliably measurable and therefore should not be considered. On the other hand an argument is that if insurance liabilities are measured at CEV, it is arbitrary not to include the effects of an insurer's credit standing for measuring purposes.⁵⁸

The board's preliminary view is that *"the current exit value of a liability is the price for a transfer that neither improves nor impairs its credit characteristics"*⁵⁹. Therefore measuring liabilities at CEV should reflect those characteristics. The effects of credit characteristics on the initial measurement and subsequent changes of an insurance liability should be disclosed by the insurer.⁶⁰ This is because changes in the credit characteristics may form relevant information that is used to estimate market prices for benchmarking.⁶¹

⁵⁷ cf. DP – Part 1, par. 228.

⁵⁸ cf. DP – Part 1, par. 230 – 231.

⁵⁹ DP – Part 1, par. 232.

⁶⁰ cf. DP – Part 1, par. 232.

⁶¹ cf. DP – Part 1, par. 231.

2.2.6. Investment contracts

Some insurance contracts do not transfer significant insurance risk. Consequently they are falling within the scope of IAS 39 for financial instruments. The problem is that there are differences between the board's preliminary views on insurance contracts and the requirements in IAS 39 for financial instruments and IAS 18 for revenue. The board wishes to eliminate those differences but does not present proposals for that within the DP.⁶²

Some of the main problematic issues are:⁶³

- Initial measurement under IAS 39 and IAS 18 is at fair value. The DP proposes to measure insurance contracts initially at CEV. Similar regulations affect subsequent measurement.
- Under the proposed model in the DP significant gain or loss at inception could be identified if the pricing does not meet the requirements of the market participants. In this case, an insurer would have to check for errors or omissions.
- The unit of account is not determined in the same way in the respective standards.
- There are some components that would not be recognised consistently among the standards.

2.3. Policyholder participation

2.3.1. Participating contracts

2.3.1.1. Background

Some insurance or investment contracts give the policyholder also the right to benefit from positive performance of the relevant class of contracts or related assets besides guaranteed benefits. This forms the policyholder participation right which leads to a participating contract.⁶⁴

⁶² cf. DP – Part 1, par. 233.

⁶³ cf. DP – Part 2, Appendix B Comparison with IAS 39, p. 10 – 13.

⁶⁴ cf. DP – Part 1, par. 236.

In the existing IFRS 4 a definition for so called “discretionary participation feature” is given and will be reviewed in phase II of the board’s project. This definition of a “*contractual right to receive as a supplement to guaranteed benefit, additional benefits*”⁶⁵ with certain characteristics includes controversial components of discretion on the one hand and constraint on the other. The insurer has discretion over the amount and timing of the payment, constrained through contractual or legal regulations. Therefore it is difficult to decide whether such policyholder participation rights lead to a liability for the insurer.⁶⁶

2.3.1.2. How participating contracts work

The charged premiums of participating contracts are larger than those for non-participating contracts. The exceeding part of the premium will be (partly) refunded by the insurer if the outcomes meet the insurer’s expectations. While in non-participating contracts the insurer bears the whole risk, the policyholders in participating contracts bear the risk up to a certain level.⁶⁷

The following graph gives some examples where this difference in risk-bearing is shown:

⁶⁵ DP – Part 1, par. 237.

⁶⁶ cf. DP – Part 1, par. 236 – 238.

⁶⁷ cf. DP – Part 1, par. 239 – 241.

Figure 10: Comparison of non-participating contracts and participating contracts

	<i>currency</i>	
<i>non-participating contracts</i>		
expected future claims and losses	-80	
charged premium	89	
compensation for risk-bearing	9	
<i>participating contracts</i>		
1) expected future claims and losses	-80	}
charged premium	100	
dividend	-13	
target-margin	7	
2) expected future claims and losses <80	-70	} policyholder bears risk --> lower target margin as for non-participating contracts
charged premium	100	
dividend	-23	
target-margin	7	
--> higher dividend		
3) expected future claims and losses >80	-90	} insurer bears risk
charged premium	100	
dividend	-3	
target-margin	7	
--> smaller dividend		
4) expected future claims and losses >93	-95	} insurer bears risk
charged premium	100	
dividend	0	
target-margin	5	

Source: own illustration following DP – Part 1, par. 239 – 240

The procedure of sharing favourable performances with policyholders typically involves 3 steps:⁶⁸

1. Determination of the distributed amount (e.g. profit for the current period).
2. Allocation of the distributable amount to classes of policyholders (level of aggregation may be determined by the underlying contracts).
3. Distribution of the amount specified in step 2. to individual policyholders (various forms possible, e.g. cash, additions to surrender values).

⁶⁸ cf. DP – Part 1, par. 242.

2.3.1.3. Definition of a liability

For participating contracts the question arises whether the policyholder participation rights lead to a present obligation for the insurer to pay dividends. The board refers to the precedent given in IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”. There are 2 defined categories:⁶⁹

- Legal obligations: An obligation that comes from a contract through explicit or implicit terms.
- Constructive obligations: An obligation that comes from an entity’s action that indicated that it is willing to accept certain responsibilities and in order to that created a valid expectation on the affected parties. Such constructive obligations may occur from insurance contracts with policyholder participation.

The board’s preliminary view is, that *“the cash flows used in measuring a participating insurance liability should incorporate for each scenario an unbiased estimate of the policyholder dividends payable in that scenario to satisfy a legal or constructive obligation that exists at the reporting date”*⁷⁰. Whether such an obligation exists may depend on the particular underlying contracts and facts. Therefore the detailed guidance in IAS 37 has to be considered.⁷¹

For more clearness, an accurate disclosure concerning guaranteed benefits and participating benefits in the financial statements is necessary. In phase II of the project the board will consider accordant disclosure requirements.⁷²

2.3.1.4. Measurement of participating contracts

When measuring participating contracts 2 issues arise:⁷³

- The approach to embedded options and guarantees: Participating contracts create asymmetric pay-offs that are similar to embedded options or guarantees.

⁶⁹ cf. DP – Part 1, par. 247 – 251.

⁷⁰ DP – Part 1, par. 254.

⁷¹ cf. DP – Part 1, par. 255.

⁷² cf. DP – Part 1, par. 258.

⁷³ cf. DP – Part 1, par. 259 – 260.

- The discount rate: Discount rates should depend on the characteristics of the liability. But within participating liabilities some cash flows from the liability may depend on the cash flows from the underlying assets.

The basis for measuring asset-dependent cash flows and for measuring the underlying assets has to be consistent.⁷⁴

2.3.2. Universal life contracts

2.3.2.1. Definition of universal life contracts

The board uses the definition of the American Council of Life Insurers: *“A type of permanent life insurance that allows you, after your initial payment, to pay premiums at any time, in virtually any amount, subject to certain minimums and maximums. This policy also permits you to reduce or increase the death benefit more easily than under a traditional whole life policy. To increase your death benefit, the insurance company usually requires you to furnish satisfactory evidence of your continued good health”*⁷⁵.

A typical universal life contract proceeds in the following way: First, premiums are added to a policyholder account. The premiums can be varied by the policyholder up to a certain degree. Mortality coverage is provided as long as the policyholder account is funded. Based on the balance of this account, interest is added. Mortality charges and some costs for administration or acquisition are deducted from the policyholder account. Withdrawals of the account can contractually be appointed.⁷⁶

2.3.2.2. Crediting rates

Asset returns can affect crediting rates. This can have a similar effect like participating contracts based on returns on assets. This is an argument to account the interest credited to universal life contracts the same way as dividends paid because of policyholder participation rights. Some argue that it is already adequate to measure the liability on the minimum crediting rate guaranteed to the policyholder.

⁷⁴ cf. DP – Part 1, par. 261.

⁷⁵ DP – Part 1, par. 262.

⁷⁶ cf. DP – Part 1, par. 263.

The board thinks that this minimum-based measuring does not provide enough useful information. Instead of this, the estimated crediting rates should reflect the estimated rates payable in the particular scenarios to satisfy legal and constructive obligations.⁷⁷

2.3.2.3. Future cash flows

Generally, the board thinks that the measurement of an insurance liability should include the premiums paid to retain guaranteed insurability (“guaranteed insurability test”).⁷⁸ This works well if the future premiums are specified in the insurance contract. But as the premiums for universal life contracts can be varied by the policyholder, not all premiums may pass the test.⁷⁹

2.3.3. Unit-linked contracts

2.3.3.1. Parameters of unit-linked contracts

Unit-linked contracts are insurance contracts where some or all unit-linked benefits for the policyholder are determined by the price of units in an investment fund. The paper uses the terms of separate account assets for the corresponding pool of assets and general account assets for all other assets of the insurer. Depending on whether the assets in the fund are part of the insurer’s activities or not, it could be relevant for the insurer whether to recognise these assets. The premium paid by the policyholder is typically used to buy units in a fund. Unit prices reflect the fair value of the fund’s assets. Deduction and charges are often made for a front-end fee, bid-ask spreads, administration costs, insurance coverage and tax.⁸⁰

Unit-linked contracts bring up some difficulties in accounting that are discussed in the following chapters. A question is whether the insurer should recognise the assets pool and its related liabilities. Another problem deals with accounting mismatches because of different measurement of the underlying assets and related liabilities.⁸¹

⁷⁷ cf. DP – Part 1, par. 265 – 267.

⁷⁸ This is discussed in detail in chapter 4 of the DP, which is not focus of this thesis. Thus, more information can be found in *Höglinger* (2010).

⁷⁹ cf. DP – Part 1, par. 268.

⁸⁰ cf. DP – Part 1, par. 269 – 270.

⁸¹ cf. DP – Part 1, par. 271.

2.3.3.2. Recognition and presentation of separate account assets

The board discusses 3 treatments for separate account assets:⁸²

- Separate account assets and the related liabilities could be excluded from the balance sheet. If the liability is only partly related and includes also other parts, this will be adequately recognised. This would reflect the fact that the insurer only has indirect benefits from these assets and does not bear the entire risk.
- Separate account assets could be included in the balance sheet as a single line item besides the general account assets. The complete liability could then also be included as a line item. This method would be proper if the insurer must satisfy the whole obligation and meets the fact that the insurer at last controls the investment decision.
- The third method would be to include separate account assets within the general account assets, but to present the entire liability as a line item. As within the second method this goes with the insurers control over investment decisions. Also it puts assets with same characteristics in the same line item group.

There are some arguments for and against each of these methods, but the board had not formed a preliminary view on that the time the DP was issued.⁸³

2.3.3.3. Accounting mismatches for unit-linked contracts

There are situations where the unit-linked assets cannot be classified as fair value through profit or loss, which leads to accounting mismatches because of different measurements. This happens if those assets cannot be recognised, or can be recognised but not measured at fair value (e.g. not financial assets but inventories.). Even if unit-linked assets are measured at fair value, account mismatches can occur if changes in the fair value are not recognised within profit or loss.⁸⁴

⁸² cf. DP – Part 1, par. 273 – 276.

⁸³ cf. DP – Part 1, par. 277.

⁸⁴ cf. DP – Part 1, par. 278.

To avoid such accounting mismatches the board presents 2 approaches:⁸⁵

- The treatment concerning the recognition and measurement of separate account assets could be changed, so that fair value through profit or loss applies. This proceeding would require some exceptions to the existing requirements of recognition and measurement and the board may have to introduce a new definition of separate account assets. Alternatively a broader principle on accounting for “assets held for other parties” could be defined.
- The measurement of unit-linked liabilities could be adjusted to avoid differences between the carrying amount and the fair value of separate account assets. A counter-argument is that such adjustments would be an override of general measurement principles – the CEV. Others argue that it would only be an application instead of a modification of the CEV. This is because of the linkage between the unit-linked liability and the fair value of the underlying asset. A transfer of the liability without the linked asset is not likely.

However, eliminating these accounting mismatches through the mentioned methods would lead to inconsistencies with other IFRSs’ requirements. Also in this case the board had not formed a concrete preliminary view on whether it is appropriate to put up with such inconsistencies at the time the DP was issued.⁸⁶

2.3.4. Index-linked contracts

An index-linked contract exists if an insurance or financial liability is linked to an index. The issuer, respectively insurer, is not contractually obligated to hold the underlying assets and hence, could transfer liabilities without transferring the assets too. If the assets are held and not measured at fair value through profit or loss, it will have effects on profit or loss of the insurer. The board does not yield to arguments of some who claim either to allow measurement at fair value through profit or loss or to adjust the measurement to the index-linked liability.⁸⁷

⁸⁵ cf. DP – Part 1, par. 279 – 283.

⁸⁶ cf. DP – Part 1, par. 286.

⁸⁷ cf. DP – Part 1, par. 287 – 288.

The board's view is that the existing requirements in IFRSs are already "*appropriate for assets held to back index-linked contracts*"⁸⁸. So the board does not suggest inserting further regulations.

2.4. Changes in insurance liabilities

2.4.1. Presentation of insurance premiums as revenue or deposit

2.4.1.1. Components of an insurance premium

With the insurance premium the policyholder pays primarily for the expected present value of benefit payments to him. A typical example for this is payment to policyholders because they experienced insured losses. But also the dividends paid within participating contracts and repayments for some kind of insurance contracts, e.g. annuities or group insurance contracts, are benefit payments. These payments can be seen as repayments of deposits, either to individual policyholders or the policyholders as a group. The premium also covers acquisition costs, margins for bearing risks and providing services and the expected present value of other expenses.⁸⁹

The board describes all contractual features that lead to (re)payment to policyholders as a deposit component. This is valid for individual and collective payments. The broadness of the definition for deposit components is not specified any further.⁹⁰

2.4.1.2. Some details of the revenue and deposit approaches

Generally, there are 2 approaches for presenting deposit components of an insurance contract:⁹¹

- 1 possibility is to present deposit premiums as revenue and the resulting payments as an expense.
- The other is to present premiums as a deposit receipt and the payments as a repayment of the deposit to the policyholders.

⁸⁸ DP – Part 1, par. 295.

⁸⁹ cf. DP – Part 1, par. 298 – 299.

⁹⁰ cf. DP – Part 1, par. 300.

⁹¹ cf. DP – Part 1, par. 301.

But beside this general consideration, several details of the revenue and deposit approaches may have some impact on the presentation:⁹²

- A difference between life and non-life presentations: Non-life presentations show the premium as a liability in the beginning. Later it is recognised as revenue over time as it is earned. The board describes it as a cost-based measure of an insurer's obligation to be able to pay valid claims. Within life presentation written premiums are presented as revenue as soon as they are due, not when they are earned. At the same time, an expense equal to the associated change in the liability is recognised. Hence the difference between these presentations is that the line items differ. This is because life insurances are long-termed, whereas non-life contracts are traditional one year long.
- Premiums written: As in non-life contracts insurers often present premiums in 2 stages. During the period they are shown as premiums written, which became unconditionally receivable during the period.
- Unearned premiums: Unearned premiums are also written premiums but their insurance coverage period has not yet expired. Changes in unearned premiums are deducted which leads to premiums earned.
- Premiums earned: These premiums during a period are "*premiums for insurance coverage during that period*"⁹³. The problem arising here is to determine when each part of the premium is earned. This involves some processes and topics that have been discussed in the earlier chapter 3 of the DP "Measurement – core issues", e.g. estimating remaining cash flows.

The second part of the DP gives a few examples to line out the differences of these inclusions.⁹⁴

2.4.1.3. Possible approaches for presenting insurance premiums

There are 3 possible approaches to present insurance premiums:⁹⁵

- The same treatment for all contracts: This would mean that either all premiums are shown as revenue or as deposit receipts.

⁹² cf. DP – Part 1, par. 308 – 315.

⁹³ DP – Part 1, par. 312.

⁹⁴ These examples can be found in the DP – Part 2, Appendix G Examples, p. 61 – 68.

⁹⁵ cf. DP – Part 1, par. 316.

- Different treatments for different classes of contracts: The treatment would differ between classes of contracts either additive to specified criteria or by choice of the insurer.
- Unbundling: Premiums could be unbundled into a deposit receipt and a revenue receipt. This might happen for all or only specified insurance contracts.

There are different arguments for and against those methods including the consistency with current existing praxis, the complexity or simplicity of the method and some disadvantages of unbundling. The board thinks it is important how premiums are treated, especially as many insurers use the total premium revenue as the top indicator of the size of their business. But, the time the paper was issued the board had not built a preliminary view on how to treat premiums. For doing so the appropriateness of unbundling in the balance sheet and developments in the FASB's project on insurance risk transfer will also be considered.⁹⁶

2.4.2. Changes in the carrying amount of insurance liabilities

There are several reasons why the carrying amount of insurance liabilities can change:⁹⁷

- Income or expense recognised at the inception of new contracts.
- Receipt of previously expected cash inflows or payment of previously expected cash outflows.
- Changes that are expected, e.g. release of previous risk or service margins.
- Changes in circumstances like in discount rates, estimated cash flows or differences between previous estimated and actual cash flows.
- Any kind of policyholder participation.
- Income or expense because of held reinsurances relating to the underlying direct insurance contract.
- Possible effects of business combinations and changes in foreign exchange rates.

⁹⁶ cf. DP – Part 1, par. 317 – 324.

⁹⁷ cf. DP – Part 1, par. 325.

Acquisition costs and accordingly the part of the premium covering these costs are also related to the insurance liability. This and the mentioned reasons for changes in insurance liabilities lead to different implications for users when estimating an insurer's future cash flows. The question arising is how detailed the income statements of insurers should report about the changes in the carrying amount of insurance liabilities and its catalysts. Therefore the board is broadly considering how to disaggregate and display income and expenses within own projects.⁹⁸

2.4.3. Presentation in profit or loss

Some argue it would be consistent with regulations of IAS 39 for financial instruments to permit insurers to present effects of remeasuring insurance liabilities outside profit or loss. But the board sees no reason to exclude any changes from profit or loss.⁹⁹

Relating to changes in insurance liabilities, the existing IFRS 4 knows and permits in some accounting models a practice called shadow accounting. This means that some of the changes in insurance liabilities are recognised outside profit or loss through equity. As shadow accounting is only possible in some cases that are anyway partly avoided through the preliminary views presented in this DP, the board does not intend to permit shadow accounting and sticks to its view that all changes in the carrying amount of insurance liabilities should be included in profit or loss.¹⁰⁰

⁹⁸ cf. DP – Part 1, par. 326 – 328.

⁹⁹ cf. DP – Part 1, par. 329.

¹⁰⁰ cf. DP – Part 1, par. 334 – 337.

3. The comments on the second half of the discussion paper

3.1. Introduction

The 162 comment letters contained a total of 2,093 pages. To make it easier to analyse the comments, the letters were split into groups. Therefore the submitters of the comment letters had to be identified. A table of all comment letters was set up. It includes information about the consecutive number of the comment letter, number of pages, submitter, land of origin and group.¹⁰¹

The first step of analysing the comments was to prepare another table listing all commenters sorted after groups and the questions 10 to 21. Then it was noted whether a certain commenter had replied to a certain question. For this purpose, all comments that refer to a question specifically enough were considered, even if the commenter had not stated it explicitly under a title referring to a certain question. Then, each comment was summarized and written into the particular cell of the table. After that, comments with the same view were marked. Then a short overview of how many commenters (dis)agree with the board's view was made. This basic information is used to identify general tendencies. Frequently mentioned or striking comments are used in the analysis to point out the commenters' views. The analysis given for question 21 is not so detailed because of the enormous number and variety of comments that fall under the scope of this question.

The structure of the analyses is the same for all questions: First the question is presented. Then the responses from the groups are recapitulated in the following order: insurers, actuaries, accounting profession, standard setters, supervisors, financial service providers and others. Finally a short summary over all comments to the underlying question is given to point out a trend – if possible. Footnotes that refer to certain statements in the comment letters include the page numbers given in the concerning letter. If a letter is not numbered, its pages are simply counted starting at the covering letter.

¹⁰¹ cf. *Höglinger* (2010), p. 25. A detailed description of the procedure of grouping the comment letters and the groups itself can be found in *Höglinger* (2010). See also Appendix A: List of commenters.

3.2. The commenters' views on the measurement of assets held to back insurance liabilities

3.2.1. Question 10

Do you have any comments on the measurement of assets held to back insurance liabilities?

3.2.2. Insurers

There are 27 out of 55 insurers answering directly to question number 10. Generally 2 tendencies within the comments can be identified. On the one hand there are proponents of using the option under IAS 39 to measure assets held to back insurance liabilities at fair value. On the other hand the opponents of this view do not support using the fair value measurement approach for these assets.

The bigger part of the commenters belongs to the group supporting the fair value approach. These 19 proponents mostly use the argument that accounting mismatches arise from different measurement approaches for liabilities and related assets. All of the 19 commenters agree with the board's intention to eliminate these accounting mismatches as far as possible in phase II of the project. Therefore they support a consistent measurement of insurance liabilities and assets backing them. The DP proposes the CEV for liabilities. To achieve consistency, assets should be measured at fair value if possible.

17 of these commenters think that the existing fair value option under IAS 39 is sufficient. Under this option a lot of financial assets can be categorized as fair value through profit or loss. The remaining 2 commenters even argue that the restrictions of this IAS 39 option should be removed to make it possible for all assets held to back insurance contracts to be valued at fair value. Most of them also suggest the board to offer a one-time re-designation provision when adopting the new IFRS for insurance contracts.

A small group of 8 commenters does not support this view. They do not support measuring assets held to back insurance liabilities at fair value. 1 argues instead that *"transparency and comparability of performance can be achieved through*

*appropriate levels of disclosure*¹⁰². But these 8 commenters mainly argue that the board generally proposes the wrong approach for measuring assets or liabilities. The board supports current estimate approaches and for liabilities especially the CEV. An argument against that is that *“the board has not provided sufficient credible research”*¹⁰³ that the CEV-based measurement provides best relevant and reliable information for liabilities. According to that, the fair value for assets backing these liabilities is not the best measuring method for proponents of this view.

Altogether there seems to be a tendency amongst insurers towards preferring the fair value measurement for assets held to back liabilities. Some even want to open the fair value option under IAS 39 to more assets. A few opponents of this argue especially against the suggested use of the CEV for liabilities.

3.2.3. Actuaries

Only 7 of the 14 representatives of the group of actuaries answer to this question. The comments are quite homogenous. Most actuaries mention that assets should be valued at fair value to be consistent with the CEV approach of insurance liabilities, especially when the assets are held to back these liabilities. There are no comments against the use of the fair value for assets. As within the group of insurers there were 2 commenters even thinking that the fair value option should be compulsory and *“extended to those assets for which a fair value option is not now available”*¹⁰⁴.

3.2.4. Accounting profession

18 out of 28 commenters of this group answer to question number 10. The clear majority of 14 out of these 18 comments displays a positive attitude to the use of the fair value for assets backing insurance liabilities. 7 of these commenters even think that the board should *“grant a transitional provision to allow the reclassification of financial assets into the category of financial instruments at fair value through profit*

¹⁰² CL 4, p. 6.

¹⁰³ CL 102, p. 30.

¹⁰⁴ CL 111, p. 8.

or loss¹⁰⁵. Most comments include the statement that the use of the fair value option under IAS 39 will minimize accounting mismatches.

3 commenters think that there should be no special rule or exception for the measurement of assets held to back insurance liabilities. Existing rules should be used for valuing assets. 1 commenter proposes the following accounting method: Assets and matching liabilities where the *“risk and reward reside with the policyholder should be excluded from the balance sheet and only cash flows to / from the shareholder taken into account”*¹⁰⁶.

3.2.5. Standard setters

There are 17 out of 19 standard setters that answer to this question. Like within the groups above, the majority argues in favour of measuring assets held to back insurance liabilities at fair value. Again the following arguments are mentioned:

- The new standard should avoid accounting mismatches.
- Consistent measurement between liabilities and (related) assets is desirable.
- Measuring liabilities at CEV and assets at fair value will avoid accounting mismatches.

3 commenters suggest some kind of extension of the IAS 39 fair value option. Either through disposing any constraints for using this option or permitting a *“re-designation of financial assets between the categories under IAS 39 when the new IFRS is first applied”*¹⁰⁷. 2 commenters only mention that the board should take actions to avoid accounting mismatches.

3.2.6. Supervisors

Only 7 commenters fall into the group of supervisors. 4 of those do not answer directly to this question. The remaining 3 commenters mention the importance of consistency with the measurement of liabilities at CEV. Assets should be measured

¹⁰⁵ CL 92, p. A-10.

¹⁰⁶ CL 60, p. 8.

¹⁰⁷ CL 132, p. 9.

at fair value when it is appropriate. Similar to the other groups, an extension of the IAS 39 fair value option is proposed.

3.2.7. Financial service providers

Only 11 of 21 financial service providers comment on this matter. There are no comments against the use of the fair value for assets held to back insurance liabilities. Nevertheless, there can be 2 types of views identified:

- 1 is that measuring assets at fair value should only be an option and not the only method. The existing options under IFRSs (e.g. the IAS 39 fair value option) are satisfactory and will fairly remove accounting mismatches. 4 commenters share this view.
- The other 7 commenters support the valuation of assets at fair value even more intensely. They assume that insurers will try to use the fair value option in any case. Hence these commenters suggest to extend such options to all kinds of assets or to provide the possibility to re-designate assets under the new standard.

1 commenter mentions that even if all assets are measured at fair value and liabilities at CEV, there could still arise some accounting mismatches *“due to the fact that assets and liabilities would not be measured using the same current valuation basis model”*¹⁰⁸. All in all there is still the same tendency amongst financial service providers.

3.2.8. Others

In this group 10 commenters do not answer this question. 8 commenters give their views on assets held to back insurance liabilities. Only 1 commenter is against the use of the fair value for assets. This commenter does not share the board's view that other valuation methods would be more costly and time-consuming than an exit price valuation. His argument is that an exit price valuation also costs time and money because the company would have to explain this accounting method *“which includes*

¹⁰⁸ CL 157, p. 8.

*volatility and/or material amounts which are unrelated to the actual flows of economic resources that will occur*¹⁰⁹.

The other 7 commenters mention that there should be consistency in measuring assets and liabilities in order to avoid accounting mismatches. Current estimate approaches and the fair value option under IAS 39 should be used.

3.2.9. Summary

Although not all groups are homogenous, the prevalent view is that assets held to back insurance liabilities should be valued at fair value. The board suggests to value liabilities at CEV. As the majority wants to avoid accounting mismatches through consistency in measurement, the suitable method for related assets is to use the fair value options. Especially Australian commenters support this view as there is an *“Australian concept of fair value treatment through the Income Statement, for both assets and liabilities associated with insurance contracts”*¹¹⁰ and they would be concerned if this approach is *“not mandated elsewhere in the world”*¹¹¹.

Some commenters require broader application possibilities for the fair value option under IAS 39. A frequent suggestion therefore is the granting of a one-time transitional regulation to re-designate assets when issuing the new standard for insurance liabilities.

A lot of comments do not refer directly to the measuring of assets held to back insurance liability. They discuss the issue of measuring insurance liabilities and consistency in measurement of assets and liabilities generally. Hence, they only refer indirectly to assets backing insurance liabilities.

¹⁰⁹ CL 107, p. 4.

¹¹⁰ CL 13, p. 9.

¹¹¹ CL 13, p. 9.

3.3. The commenters' views on risk margins

3.3.1. Question 11

Should risk margins:

- (a) be determined for a portfolio of insurance contracts? Why or why not? If yes, should the portfolio be defined as in IFRS 4 (a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio)? Why or why not?
- (b) reflect the benefits of diversification between (and negative correlation between) portfolios? Why or why not?

3.3.2. Insurers

31 insurers reply to this question. There are 2 comments that just mention that risk margins should not be used for the valuation of non-life reserves at all, and give no further comment. Within the remaining 29 comments only 4 are disagreeing with the board's view on the first part of the question whether risk margins should be determined for a portfolio of insurance contracts. These commenters prefer risk margins to be determined on an entity level. They argue that *"this is consistent with how an insurer manages its business"*¹¹². Another argument a commenter stated is that risk margins on an entity level provide *"more meaningful and information on the risks of the business"*¹¹³, especially for the users of the financial statements.

3 comment letters do not refer to the first part of the question. All of the remaining insurers (22) agree with the board's view and support the determination of risk margins on a portfolio level. The most interesting thing about this is that they use the same argument as the opponents of this view: the portfolio level reflects how insurers manage their business! There are some consistently mentioned arguments to support this position:

- The portfolio represents the main essence of the insurance concept, which is based on the pooling of risk.

¹¹² CL 136, p. 7.

¹¹³ CL 144, p. 9.

- This aggregation level is most consistent with how insurers price their products.
- Managers usually manage the business on a portfolio basis.
- The financial statements should reflect the above mentioned characteristics.

But the proponents of a portfolio basis do not present a homogenous picture on the definition of a portfolio. Only 9 insurers support the board's view to keep the existing definition in IFRS 4. There are also 9 commenters mentioning their concern that the existing definition may not be broad enough for some insurers. Especially the terms "contracts" and "broadly similar risks" are criticised. 4 insurers do not specifically comment on this.

The board's view on the second part of the question is that benefits of diversification and negative correlations between portfolios should not be reflected by the risk margins. Only 5 commenters share this view. The bigger part of 24 insurers thinks that these benefits should be considered. Their main argument is that this would reveal best how the business model works and hence should be reflected within the financial statements.

3.3.3. Actuaries

There are only 3 out of 14 actuaries that do not answer to this question. The majority of 5 commenters agrees with the board's view on both parts of the question. This means they support a portfolio level for the determination of risk margins and the proposed definition of what a portfolio is. The arguments for these views are about the same as within the group of insurers. Additionally some actuaries mention practical matters like that *"there is no practical use to which a finer subdivision of risk margins can be put"*¹¹⁴. They also agree on not including the benefits of diversification and negative correlation between portfolios.

A smaller group of 3 actuaries adopts exactly the opposite position. They do not support a portfolio level but the fully consideration of the effects of diversification.

¹¹⁴ CL 97, p. 23.

These actuaries think that an exclusion of these effects “*would not reflect economic reality*”¹¹⁵.

3 actuaries answer to this question only partly agreeing with the board’s views. All of them generally agree with the use of a portfolio basis for determining risk margins. 1 disagrees with the given definition of a portfolio. This commenter agrees with the board’s view not to include the diversification benefits between portfolios. The other 2 think they should be reflected in the risk margins.

3.3.4. Accounting profession

21 out of 28 representatives of the group of accounting profession answer to this question. Only 1 commenter is against the determination of risk margins on a portfolio level. He thinks that the board’s arguments in the DP are “*insufficient to support a conclusion on the appropriate unit of measurement*”¹¹⁶. This commenter gives no further comments on the second part of the question. Within the 20 supporters of the portfolio level half of the commenters think that the given definition of a portfolio in IFRS 4 is appropriate. Their main arguments in favour of a portfolio basis are:

- It reflects the core issue of the insurance business which is the pooling of risks.
- Insurers manage their business on a portfolio basis. The unit of account for risk margins should be the same as for management purposes.

Some opponents of the IFRS 4 definition of portfolios dislike the term of “broadly similar risks”. They require further guidance on that because this term may be interpreted differently in practice.

The views on the second part of the question are balanced. Out of 20 commenters replying on this topic, 9 agree with the board’s view that the benefits of diversification and negative correlation between portfolios should not be reflected in the risk margins. Only a few give concrete reasons for this opinion. Some argue that it is

¹¹⁵ CL 13, p. 10.

¹¹⁶ CL 92, p. A-10.

more appropriate to show these effects in another way, e.g. through suitable disclosure or capital requirements. Another argument is that not reflecting the benefits of diversification creates consistency with the measurement criteria under IAS 39 and the portfolio basis as unit of account for risk margins.

However, 11 commenters do not share this view. Most of them mention that considering the effects of diversification benefits *“is a key part of both management and pricing policies of an insurer”*¹¹⁷ and should be taken into account to reflect this fact. Some commenters prefer entity-level based information in the financial statements and hence would include all benefits from diversification including those between portfolios.

3.3.5. Standard setters

Except 1 standard setter all representatives of this group answer to question 11. The 17 commenters that refer to the first part of the question share the board’s opinion to use the portfolio as the unit of account for risk margins. The arguments stated in the DP are favoured. But again the suggested definition of a portfolio is seen controversial. Only 7 standard setters concretely agree with the IFRS 4 definition. In contrast 10 commenters request the board to change the existing definition. Arguments against this definition are that the terms “contracts” and “broadly similar risks” may be problematic and *“may not necessarily reflect the way in which insurers manage their contracts”*¹¹⁸.

The 15 standard setters that reply to the second part of the question can again be divided into 2 groups. 8 commenters support the board’s view and think that risk margins should not reflect the benefits of diversifications and negative correlation between portfolios. The 7 standard setters that support consideration of these benefits mention amongst others the following arguments for this position:

- An accounting model should reflect these benefits as they are an integral part of an insurer’s business model.¹¹⁹

¹¹⁷ CL 60, p. 8.

¹¹⁸ CL 132, p. 9.

¹¹⁹ cf. CL 141, p. 18

- *“Large insurance groups are also supposed to include their scale (including diversification) benefits in their pricing. If they cannot be reflected in the measurement of insurance contracts, a loss at inception will be measured that is not an economic loss.”¹²⁰*

3.3.6. Supervisors

To the group of supervisors this question seems to be not that much relevant as only 3 out of 7 answer to it. 2 of them agree with the board's view on both parts of the question. This means they support determining risk margins for a portfolio defined as in IFRS 4. Diversification benefits and negative correlations between portfolios should not be reflected. 1 supervisor supports the opposite position in all of these matters. He prefers a higher level of aggregation.

3.3.7. Financial service providers

Only 11 out of 21 financial service providers comment on this question. 10 of them answer to the first part of the question. Like within the group of supervisors only 1 commenter disagrees with the board's views in all aspects. The main argument of the 9 financial service providers supporting a portfolio as the unit of account is the following: Insurers manage their business by pooling of risks and the law of large numbers. This reality is reflected by determining risk margins on a portfolio-level. Most of the commenters also agree with the definition given in IFRS 4.

The answers to the second part of the question are again controversial. 4 commenters support the board's view and do not want risk margins to reflect the benefits of diversification and negative correlation between portfolios. 1 of these commenters gives a short but very catchy argument for this position: *“If one accepts the logic of (a) then the answer must be no.”¹²¹* It means that if risks are managed within a portfolio, reflecting effects of higher levels of aggregation cannot be allowed. However, there are 7 financial service providers wishing diversification benefits to be included.

¹²⁰ CL 191, p. 12.

¹²¹ CL 2, p. 6.

3.3.8. Others

Amongst other commenters only 7 answer at least to parts of question 11. Only 2 commenters are against a portfolio as unit of account for risk margins. An argument stated by the other 5 commenters supporting a portfolio level is that the risk margin calculation should be done at the same level as the management uses for the pooling of risks. The definition of a portfolio is rarely commented.

Arguing whether risk margins should reflect diversification benefits, there is a tie. A small group of 3 commenters agrees respectively disagree with the board's view. The argument used in favour of reflecting diversification benefits is that these benefits actually exist and hence need to be recognised in an appropriate accounting system.

3.3.9. Summary

According to the first part of the question the majority of all groups favours a portfolio as the unit of account. Opponents of this view mostly prefer a higher level of aggregation. But when defining a portfolio there are different views even amongst supporters of the portfolio level. Especially the term "broadly similar risks" is not appropriate enough for some commenters. However, a big part of the commenters is satisfied with the existing definition.

There is a keen discussion whether to recognise all diversification benefits or not. It cannot be said that the view on the first part of the question automatically leads to a specific view on the matter of the second part. Both, proponents and opponents of a portfolio-level argue partly in the same way. The most popular argument for reflecting diversification benefits is that in fact insurers use these effects when pricing and managing their contracts and hence should be recognised to reflect how the business works. A common argument of the opposite side is that including diversifications benefits between portfolios would lead to measurement on an entity-level, which is not desirable. Some commenters suggest that the board should grant insurers another possibility to recognise diversification benefits. A possibility could be to include appropriate disclosures in the financial statements.

3.4. The commenters' views on measuring reinsurance assets at current exit value

3.4.1. Question 12

- (a) Should a cedant measure reinsurance assets at current exit value? Why or why not?
- (b) Do you agree that the consequences of measuring reinsurance assets at current exit value include the following? Why or why not?
 - (i) A risk margin typically increases the measurement of the reinsurance asset, and equals the risk margin for the corresponding part of the underlying insurance contract.
 - (ii) An expected loss model would be used for defaults and disputes, not the incurred loss model required by IFRS 4 and IAS 39.
 - (iii) If the cedant has a contractual right to obtain reinsurance for contracts that it has not yet issued, the current exit value of the cedant's reinsurance asset includes the current exit value of that right. However, the current exit value of that contractual right is not likely to be material if it relates to insurance contracts that will be priced at current exit value.

3.4.2. Insurers

In this group 31 out of 55 commenters reply to this question. Not all of them commented on both parts of the question. From the 30 commenters that replied to part (a) of the question there are 16 agreeing and 14 disagreeing with the board's view to measure reinsurance assets at CEV. It is interesting that all of them share the same thought that it is essential to measure reinsurance assets on the same basis as the related liabilities. This consistency should avoid accounting mismatches. As the suggested measurement for insurance liabilities in the DP is the CEV, it is understood that proponents of this approach agree with the board's view. The problem is that about half of the insurers do not support the CEV approach at all. A few argue that the CEV is no useful measurement basis *"since there is no ability to verify and calibrate reinsurer estimates in the absence of an observable transfer*

*market*¹²². However, the insurers' views on that are quite heterogeneous and there is no dominating tendency.

The second part of the question presents 3 consequences the board identified when measuring reinsurance assets at CEV. This question can be answered independently of whether a commenter supports the CEV approach in general or not. This is why some opponents of the CEV nevertheless agree with the board's view on part (b) of the question.

The views on the first 2 statements are quite homogenous. There is no insurer disagreeing in all cases with the conclusion made under the first sub-item. All of the 20 insurers that commented on that agree that the risk margin would increase the measurement of the reinsurance asset. But 4 of them mention that the risk margin would not necessarily equal the risk margin for the corresponding part of the underlying insurance contract. A stated reason for this view is that there may be *"economic differences between risks assumed and ceded"*¹²³.

Only 2 insurers disagree with the exceptional use of the expected loss model for defaults and disputes within reinsurance contracts. They mention the inconsistency with other IFRSs and hence support the incurred loss model. 20 insurers think that the expected loss model is appropriate and consistent with the CEV model.

The views on the third discussed conclusion are not so homogenous. Regardless of whether a commenter agrees with the CEV approach in general or not, about half of the 20 comments are against the board's view that potential contractual rights build an asset that should be included in the measurement of the cedant's reinsurance asset. Again, 2 groups can be identified: those in favour of including such future options into the valuation, and those against. But all insurers agree on the fact that these rights would not be material anyway. This is why 1 insurer even questions the need to recognise such contractual rights at all.¹²⁴

¹²² CL 59, p. 11.

¹²³ CL 127, p. 12; CL 117, p. 14.

¹²⁴ cf. CL 17, p. 4.

3.4.3. Actuaries

In this group there are only 9 commenters that comment on this question. Similar to the group of insurers, actuaries agree on the need to measure (re)insurance assets consistently with the corresponding insurance contracts. There are 3 actuaries not agreeing with the CEV approach generally. This is why they do not want reinsurance assets to be measured on that basis. The Austrian Actuarial Association thinks that the CEV is just a price. Unique prices in incomplete markets are not possible. Instead, a concept of a value based on actuarial principles and reflecting the role of the portfolio within the insurance company should be introduced.¹²⁵ This is why an “actuarial value”-concept should be used for direct insurance as well as for indirect insurance.¹²⁶

Nevertheless, all except 2 comments agree on both consequences quoted under (i) and (ii) of part (b) of the question. 1 actuary thinks that the risk margin of reinsurance assets does not always equal the risk margin for the corresponding part of the underlying insurance contract. Another actuary thinks that the existing incurred loss model is more appropriate than the expected loss model.

5 out of 8 commenters share the board’s view on contractual rights in conjunction with reinsurance contracts. 2 of the 3 actuaries that do not wish such rights to be recognised in the valuation of reinsurance assets stated as reason the following 4 scenarios resulting in not recognising such rights as the better solution:

- *“The underlying business is expected to be profitable and parts of the expected profit will be shared with the reinsurer, i.e., the future new business will reduce the reinsurance asset but that is contingent that first the direct insurer has higher initial gains from future business. There is no need to anticipate the potential reduction of the reinsurance asset if conditioned by future (higher) gains. Such reductions should not be recognized in advance.*
- *The underlying business is expected to be unprofitable and parts of the expected loss will be shared with the reinsurer, i.e., the future new business will increase the reinsurance asset, but that is contingent on the direct insurer*

¹²⁵ cf. CL 74, p. 7.

¹²⁶ cf. CL 74, p. 10.

having initial losses from future business. It should not be anticipated that the in-surer will write loss-making business.

- *The underlying business is expected to be unprofitable and in combination with the reinsurance contract a total expected loss will be even higher. That would result in a reduction of the reinsurance asset. However, it should not be anticipated that the insurer will write loss-making business in the future.*
- *The underlying business is expected to be profitable and in combination the re-insurance contract a total expected profit will be even higher. However, it should not be anticipated, that the insurer is able to write contracts with an initial gain under a current exit value measurement.”¹²⁷*

Because a reinsurance contract can only exist in relation to the underlying insurance contracts, it should be measured with reference to the direct insurance liability. Only contracts that are already issued should be taken into consideration.¹²⁸ These 2 commenters also do not support the CEV approach as presented in the DP.

3.4.4. Accounting profession

The response to this question is quite substantial. 20 out of 28 representatives of accounting profession comment on question 12; whereof 19 respond to part (a). 11 of them agree to the CEV as measurement method for reinsurance assets. Their main argument is that direct and indirect insurance contracts should be measured in the same way. As the board proposes the CEV for direct insurance contracts, it is consistent to use this approach also for the reinsurance assets.

Most of the 8 disagreeing commenters suggest other settlement values instead of the proposed CEV. A common problem seems to be the terminology and in conjunction with that the understanding of how the CEV should be determined. Although some commenters support the approaches of the three building blocks, they do not agree with the board's conclusion on the definition of the CEV. Some argue that the labelling of the suggested measurement method is not suitable.

¹²⁷ CL 97, p. 27 – 28; CL 54, p. 41.

¹²⁸ cf. CL 97, p. 28; CL 54, p. 41.

Concerning part (b) of the question the major part of the commenters agrees with the consequences of the CEV approach the board identified. These agreements are made under the assumption that the board decides to enforce the CEV as measurement basis. This does not mean that all commenters that agree to the identified consequences of the CEV also agree with the CEV concept in general. 14 commenters think that the risk margin under the CEV approach would increase the CEV of the reinsurance asset. 11 of them also think that this risk margin would equal the risk margin of the underlying insurance contract. 1 of the 2 commenters totally disagreeing with the board's view on the first consequence states that they *"do not support the principle of raising a risk margin"*¹²⁹.

15 commenters agree that the expected loss model would be more appropriate under the CEV approach. Only 2 wish to stick to the incurred loss model. 1 commenter does not support either of both models. Instead they favour a measurement model *"that is built on an expected future cash flow approach as for insurance contracts in general"*¹³⁰ when defaults or disputes are occurring.

Concerning the third sub-item 12 commenters agree with the board's view. Those 4 that disagree mention different kinds of concerns:

- 1 commenter preferring a settlement value approach argues that the problem with contractual rights will not occur when using this approach.¹³¹
- 1 commenter thinks the value of the contractual right could be material if there have been changes since entering the contract.¹³²
- 1 commenter does not wish to include future business into the CEV. It is also mentioned that they are not sure what the board's intention of this question was and ask for clarification.¹³³
- 1 commenter argues that such contractual rights only exist legally without the underlying insurance contracts not issued yet. Hence the value would be zero.¹³⁴

¹²⁹ CL 29, p. 6.

¹³⁰ CL 133, p. 8.

¹³¹ cf. CL 29, p. 6.

¹³² cf. CL 28, p. 5.

¹³³ cf. CL 12, p. 5.

¹³⁴ cf. CL 116, p. 11.

3.4.5. Standard setters

Although 15 out of 19 standard setters answer to this question, only 14 are considered for the analysis because 1 standard setter just comments on how to calculate risk margins in general and stated characteristics of its national insurance market.¹³⁵ These comments do not refer specifically enough to the question.

Most supervisors agree on measuring reinsurance assets at CEV. 5 do not necessarily support the CEV at all. All of those who decided to comment on the second part of the question too agree with the first conclusion under sub-item (i) of part (b). 2 commenters noted that the risk margins may not always be equal. Concerning the second sub-item 8 commenters agree and only 2 disagree on the assignment of the expected loss model. 1 commenter states a very interesting observation in practice: users told this standard setter that *“a sufficient empirical basis for a reliable measurement of that probability is not available. Furthermore, in practice the probability for reinsurers to default is very low.”*¹³⁶ This is why these users retained the incurred loss model.

When it comes to the third sub-item the standard setters have inhomogeneous views. 5 commenters think that contractual rights to obtain reinsurance for contracts that have not been issued yet should be reflected in the valuation of the asset and 5 think they should not. Both sides replicate the corresponding reasons the board already stated in the DP.

3.4.6. Supervisors

“Supervisors” is a small group, hence only 3 comment directly on question 12. 2 of them agree to all of the board’s assumptions. The 1 commenter disagreeing with the CEV approach did not comment on the second part of the question. The others do not state extensive reasons to support their views, but note some additional thoughts. An example affecting the risk margin is: *“In practice, insurance undertaking may find*

¹³⁵ cf. CL 73, p. 10 – 11.

¹³⁶ CL 119, p. 18.

*it easier to measure the risk margins of a liability net of reinsurance, which would result in a net risk margin on the liability side and no risk margin on the asset side.*¹³⁷

3.4.7. Financial service providers

Out of 21 financial service providers, 11 comment on part (a) of the question. 9 of them also comment on part (b) of the question. On the first part the comments are similar to them of the other groups. Most commenters agree with the CEV approach for reinsurance assets because they support consistency in the measuring of reinsurance assets and the related contracts. 3 disagree with the CEV approach.

8 commenters confirm the firstly stated consequence of the CEV approach that a risk margin typically increases the measurement of the reinsurance asset and equals the risk margin for the corresponding part of the underlying insurance contract. Only 1 mentions that *“for non-proportional reinsurance and stop loss covers, the risk margin on the underlying direct insurance would not necessarily be equal to the risk margin on the reinsured risk exposures”*¹³⁸.

Again, 8 commenters agree with the use of an expected loss model stated under sub-item (ii) because it is consistent with the CEV. Some mention that they are aware that this would be inconsistent with required IFRS 4 and IAS 39. 1 even suggests that the approach in IAS 39 should be changed, as part of a move towards the adoption of the fair value more generally.¹³⁹ Only 1 commenter insists on the incurred loss model.

6 commenters share the board’s view on the sub-item (iii) about contractual rights. Although some mention concerns and note that this would not be material, they agree that reflecting these rights in the measurement is consistent with the CEV approach. There are 2 financial service providers who do not share this view.

¹³⁷ CL 143, p. 16.

¹³⁸ CL 76, p. 14.

¹³⁹ cf. CL 2, p. 6.

3.4.8. Others

The answers of the 7 other commenters that reply to the question are varying a lot. There are 4 commenters supporting the CEV and 3 who do not. 2 of the opponents suggest other measurement bases: the liquidation value and the settlement value.

3 commenters support the board's view on the first consequence of the CEV mentioned under sub-item (i) of part (b) of the question. 2 disagree to that. 1 of them does not think the risk margins would be equal. The other commenter suggests that *"the risk margin component should be accounted for in equity"*¹⁴⁰. There are 3 commenters supporting the expected loss model and 1 supporting the incurred loss model. All of the 4 commenters that state their view on the last conclusion about contractual rights, stated under part (b) sub-item (iii) of the question, do not agree with the board's view. They think such rights should not be recognised as they do not qualify as an asset at all.

3.4.9. Summary

All in all again there is a big discussion about the CEV in general. A slightly higher number of commenters agrees with the CEV approach and logically also wish reinsurance assets to be measured on this basis. But a remarkable part of the commenters mentions critics on the presented CEV approach. However, it can be said that all commenters support consistency in measuring liabilities and assets respectively in measuring reinsurance assets and the related contracts.

The board defines 3 consequences when measuring at CEV. While a lot of commenters agree with the first 2, there are a few arguments against the third consequence. Not all commenters think that a contractual right to obtain reinsurance for contracts that have not been issued yet qualifies as an asset. Beside this, it may be of no importance whether these rights are recognised or not as most commenters think such rights would not be material anyway.

¹⁴⁰ CL 42, p. 3.

3.5. The commenters' views on unbundling of deposit or service components

3.5.1. Question 13

If an insurance contract contains deposit or service components, should an insurer unbundle them? Why or why not?

3.5.2. Insurers

There are 31 insurers that comment on unbundling of insurance contract components. A certain tendency amongst insurers can be identified: two thirds (in total 21) do not agree with the idea of unbundling at all. All of them mention at least 1 of the following 3 core arguments that support this view:

- The insurance contract should be treated as a whole because some components *"would typically not be found as standalone transactions in the marketplace"*¹⁴¹. So these components do only exist theoretically. Hence, Unbundling would be *"inconsistent with the way most insurance products are designed, priced and managed"*¹⁴². This is why unbundling would not provide useful information for financial statement users.
- Identifying and separating the contract components could be subjectively or arbitrary. This would lead to less comparability between the financial statements of different insurers.
- Unbundling is a complex undertaking that costs time and money because insurers may have to change systems and have to evaluate their contracts. The costs would outweigh the benefits that could be achieved by unbundling.

However, there are still 10 insurers that would generally support unbundling of insurance components. None of them fully agrees with the treatment of deposit components the board proposes in the DP. They agree that unbundling is essential when the deposit components are not interdependent to the insurance components. But the board also proposes that if the components are interdependent but can be measured separately some kind of unbundling should be done. The board suggests

¹⁴¹ CL 62, p. 18.

¹⁴² CL 34, p. 11.

in this case to measure the whole contract under the phase II standard and to deduct the measurement of the deposit component under IAS 39. Most insurers think that the value of the insurance component that is created this way is not appropriate because there are *“inconsistencies between the two IFRS models”*¹⁴³. The phase II standard proposes some kind of a fair value approach. For the component measured under IAS 39 the fair value option may not apply.

3.5.3. Actuaries

10 out of 14 actuaries reply to this question. Only 1 commenter agrees with the concept of unbundling as a whole and states the reason that it is consistent with the IASB framework. All other actuaries do not support unbundling either as proposed in the DP or even at all. The 3 commenters totally disapproving unbundling think that it does not provide a lot of additional useful information for the users of the financial statements. They say unbundling is complex and costs more than it brings in return.

Most actuaries do not oppose unbundling in principle, but do suggest other solutions. Instead of discussing unbundling, *“inconsistencies in the valuation of insurance contracts, investment contracts and service contracts should be eliminated”*¹⁴⁴. This would lead to the same measurement of all components. Hence, there would be no difference whether the components are measured separately or as a whole contract and therefore would make the question of unbundling invalid. Some commenters acknowledge that if the board however insists on unbundling, it would only be appropriate if the components are not interdependent.

3.5.4. Accounting profession

Compared to the groups above there are quite a lot of commenters amongst the group of accounting profession generally agreeing with the idea of unbundling. Out of 20 replies to this question, 9 do not completely oppose unbundling. But these commenters still mentioned some concerns or limitations. They think that unbundling should not be mandatory or only be done *“if there is a clear split of the*

¹⁴³ CL 17, p. 4.

¹⁴⁴ CL 14, p. 14.

components¹⁴⁵ and “a reliable measurement of the value of the contract attributable to each of the components can be made”¹⁴⁶. Some only support unbundling of service components.

A small majority of 11 commenters do not think insurance contracts should be unbundled. Amongst other things, they argue that it would cost too much to implement unbundling and that it may not provide more relevant and reliable information. Some argue that “each insurance contract should be viewed as a whole”¹⁴⁷ as service and deposit components are not managed as separate elements. Another often criticised matter is a lack of sufficient definition of some terms. The commenters require more clarification of the terms “arbitrary”, “interdependent” and “deposit”.

Regardless of whether the commenter supports unbundling or not, 6 commenters additionally mentioned that the board’s suggestion of how to measure the components if they are interdependent but can be measured separately on a non-arbitrary basis is not appropriate. The amount resulting out of subtracting of the measurement deposit component under IAS 39 from the measurement of the whole contract under the phase II standard “would be meaningless to the users”¹⁴⁸ as the fair value option under IAS 39 may not necessarily apply.

3.5.5. Standard setters

All except 1 of the 19 standard setters answer to question 13. The majority of 13 of them generally agrees with the concept and basic idea of unbundling. Nevertheless, they mention some concerns. First, most only support unbundling if the components of an insurance contract are not interdependent and can be separated on a non-arbitrary basis. In conjunction with that, some especially criticise the board’s suggested treatment if the components are interdependent but can be measured on a basis that is not arbitrary. In this case the board thinks the insurance component should be measured as the difference between the measurement of the whole

¹⁴⁵ CL 29, p. 7.

¹⁴⁶ CL 104, p. 19.

¹⁴⁷ CL 116, p. 11.

¹⁴⁸ CL 7, p. 9.

contract and the measurement of the deposit contract. Some commenters think that this would not result in a meaningful value of the insurance component. 1 commenter only agrees “if the measurement of the deposit feature under IAS 39 is changed”¹⁴⁹, preferring the expected value.

The 5 commenters disagreeing with unbundling each name a different reasons for this view:

- The contract should be measured as a whole in order to take all its characteristics into account.¹⁵⁰
- Problems that occur practically including such as that costs would outweigh the benefits of unbundling.¹⁵¹
- The portfolio should be used as unit of account and therefore the treatment of the portfolio should be consistent with the range of types that it contains.¹⁵²
- If the accounting for the components is done separately it will not reflect the substance of the transaction.¹⁵³

There is 1 standard setter who would agree on unbundling for presentation purposes but not for measurement purposes. This commenter would actually prefer to eliminate the need to unbundle for measurement purposes, i.e. there should be no different measurement models.¹⁵⁴

3.5.6. Supervisors

Supervisors seem to have a different view on unbundling as most of the other groups of commenters. This is the only group where all of the 5 comments on this matter tend towards a positive opinion about unbundling. 3 supervisors generally agree on the suggested approach in the DP except for the case that components are interdependent but can be measured separately on a basis that is not arbitrary. Similar to a lot of commenters in the other groups they think that the value resulting from the suggested treatment leads to an “*inconsistent valuation of the insurance*”

¹⁴⁹ CL 141, p. 19.

¹⁵⁰ cf. CL 132, p. 15.

¹⁵¹ cf. CL 158, p. 7.

¹⁵² cf. CL 147, p. 18.

¹⁵³ cf. CL 161, p. 30.

¹⁵⁴ cf. CL 109, p. 38.

*component*¹⁵⁵ and hence would not provide meaningful information. The other 2 commenters would agree on unbundling in theory, but state practical concerns.

3.5.7. Financial service providers

Half of the 12 financial service providers that reply to this question would agree on unbundling but only under certain circumstances. These commenters think that in practice unbundling may complicate the accounting model and may be difficult to implement. This is why they require that unbundling should only be done if the components are not interdependent and if a separate measurement can be done easily. 1 commenter thinks that appropriate disclosures *“may be a better way to help us understand the dynamics of more complex insurance contracts”*¹⁵⁶. Additionally, some mention that unbundling should only be done if its costs do not outweigh the additional benefit respectively the additional information for the users of the financial statements.

The other half does not agree to unbundle an insurance contract’s components. They prefer the contract to be measured as a whole. Their main argument for that is that all components are so interdependent *“that it is very difficult to bifurcate and measure the components separately”*¹⁵⁷. Furthermore, unbundling would create additional costs and would not provide reliable and relevant information to the users of the financial statements. Like within the groups of actuaries and standard setters, 1 financial service provider wishes the inconsistencies of valuation between the different kinds of contracts to be eliminated. This would make the question of unbundling obsolete.

3.5.8. Others

Only 6 out of 18 representatives of this group give their opinion on unbundling. 3 of them agree on unbundling as far as the service and deposit components are independent from the insurance component and can be evaluated. They do not comment specifically on the board’s proposals on how to conduct unbundling.

¹⁵⁵ CL 143, p. 16.

¹⁵⁶ CL 27, p. 9.

¹⁵⁷ CL 26, p. 10.

The other 3 commenters disagree on unbundling. A reason for this view is that there is always some kind of interdependency between the components and therefore no reliable measurement can be done. As insurance contracts are generally priced on a combined basis, splitting the contract could be subjective. Hence, unbundling would not provide additional useful information for the users of the financial statements.

3.5.9. Summary

While the groups of insurers, actuaries and accounting profession tend to not support unbundling, the groups of standard setters and supervisors provide a large number of commenters agreeing with unbundling. Amongst supervisors even all commenters agree. The views within the groups of financial service providers and others are balanced.

Those disagreeing with unbundling basically name the 3 reasons identified in the group of insurers to support their view: The insurance contract should be treated as a whole because the components only exist theoretically. Identifying and separating the contract components could be subjective or arbitrary. The costs of unbundling would outweigh the benefits.

Proponents of unbundling mostly still have some concerns and would restrict unbundling on contracts where the components are independent and easy to evaluate. Especially the board's view on unbundling components that are interdependent but can be measured separately on a basis that is not arbitrary is criticised quite often.

3.6. The commenters' views on credit characteristics of an insurance liability

3.6.1. Question 14

- (a) Is the current exit value of a liability the price for a transfer that neither improves nor impairs its credit characteristics? Why or why not?
- (b) Should the measurement of an insurance liability reflect (i) its credit characteristics at inception and (ii) subsequent changes in their effect? Why or why not?

3.6.2. Insurers

This is the question with the highest number of replies amongst this group. 35 out of 55 insurers give an opinion on this matter. Most of them only answer specifically to part (b) of the question, i.e. whether the measurement of an insurance liability should reflect its credit characteristics. This is maybe because some commenters already mentioned concerns about the CEV approach in general in conjunction with other questions in the first half.

There are only 2 commenters that answer both parts of the question in the affirmative and hence agree on the board's views on this matter. 2 more commenters agree that the CEV of a liability by definition would be the price for a transfer that neither improves nor impairs its credit characteristics. But these 2 commenters do not agree with the CEV approach in general. Another 8 commenters do not agree on the definition in part (a). They either do not support the CEV at all or mention that there may be transactions that could improve the credit characteristics of the liability.

Part (b) is the more important part of the question. There is a clear tendency against reflecting the credit characteristics in the measurement of an insurance liability as 33 commenters disagree on doing so. More than half of them mention at least 1 of the following 2 reasons to support this view:

- If the measurement of an insurance liability reflects its credit characteristics, it would lead to counterintuitive accounting. This is because *“an insurer whose credit rating is downgraded would report an accounting gain”*¹⁵⁸.
- This kind of measurement provides no decision useful information for the users of the financial statements and even may be misleading.

Another 2 reasons that are mentioned quite often are:

- *“An entity prepares its financial statements on the going concern basis and therefore with the full intention of meeting its insurance liability obligations.”*¹⁵⁹
An insurer would not be able to realize the hypothetical gains accounted as long as the going concern principle applies.

¹⁵⁸ CL 59, p. 13.

¹⁵⁹ CL 138, p. 4.

- In most jurisdictions exists some kind of guarantee fund that would meet policyholders' obligations in the case of bankruptcy of the insurer. This is why the credit characteristics are not relevant for measurement issues.

3.6.3. Actuaries

8 out of 14 actuaries decide to answer to this question. There is only 1 commenter agreeing with the board's views. He argues that a *“current portfolio exit value approach is intended to consider the probability weighted average of all scenarios, including those where the contractual cash flows do not occur. [...] However, we agree that a rational transferee would not willingly pay for a credit upgrade, and similarly, rational creditors (policyholders) would not generally permit a transfer that would reduce their rights (assuming creditors have a right to influence the transfer in the particular jurisdiction).”*¹⁶⁰ This is why the commenter agrees with the board's determination of the CEV. He also agrees on reflecting the liability's credit characteristics in its measurement, because the measurement of debt issues for cash should reflect them and there is no reason to treat insurance liabilities in a different way.

However, the clear majority of 7 commenters is disagreeing with these views. Most of them argue that credit characteristics might not be material or of limited relevance and therefore there is no need to include them in the measurement of insurance liabilities. 1 commenter even thinks that there cannot be identified any credit risk for the insurer at all. The only party facing credit risk is the policyholder and that is not within the scope of the DP.¹⁶¹

Another commenter would only agree *“to the extent that market participants reflect the credit characteristics of the contract [...]. Where they are not reflected, i.e. where measurement is determined on a market-to-model basis, such an approach is not appropriate.”*¹⁶²

¹⁶⁰ CL 30, p. 13.

¹⁶¹ cf. CL 74, p. 10.

¹⁶² CL 97, p. 31.

3.6.4. Accounting profession

In this group 22 out of 28 commenters reply to this question. 16 of them deal with part a) and 27 with part b) of the question. To the first part of the question whether the CEV of a liability is the price for a transfer that neither improves nor impairs its credit characteristics, 14 commenters answer in the affirmative. But most of them also mention that they do not support the CEV approach in general. They just acknowledge that this conclusion is consistent with the CEV if the board decides to adopt the measurement model as proposed in the DP. There is just 1 commenter who does not agree with the board's view at all.

Although so many commenters agree on part a) of the question, only 4 agree with the board's view that the measurement at CEV should reflect the liability's credit characteristics at inception and the subsequent changes in their effect. 1 commenter agrees on reflecting these characteristics but proposes a model that "*differs in some key respects from an exit value model*"¹⁶³.

3 commenters would agree on reflecting the credit characteristics at inception, but not for subsequent changes. On initial measurement it would be appropriate because these would also be included in the premium charged under the contract. But the majority of 13 commenters disagrees on reflecting credit characteristics in the measurement of an insurance liability at all. They mainly name the same arguments like the group of insurers. The results of the proposed accounting are counterintuitive because they do not think that "*a decline in creditworthiness should result in the recognition of a gain*"¹⁶⁴. Furthermore, such changes do not provide relevant information to the users of the financial statements. 1 commenter just states on both parts of the question that this would not be relevant under a settlement value approach.

3.6.5. Standard setters

18 out of 19 standard setters answer to this question. Some of them only refer to part b) of the question. 1 of them just states that the definition of "credit characteristics"

¹⁶³ CL 92, p. A-13.

¹⁶⁴ CL 142, p. 14.

given in the DP is too vague, so he cannot really comment on this matter. This comment is not taken into consideration any further.

The narrow majority (8 commenters) of those referring to part a) as well disagrees with the board's view. They either do not support the CEV approach at all or generally think that the measurement should not reflect changes in the entity's creditworthiness. Anyhow, there are still 6 commenters who think that the board's view is correct. 1 of them admits that he only agrees conceptually and the board's assumptions will not always be true in practice.

There are only 6 standard setters who agree with the board's view on the second part of the question. Only 2 of them mention a concrete reason: The measurement basis should be the same as for financial instruments in IAS 39. 1 commenter would agree on reflecting the credit characteristics at inception, but not for subsequent changes. However, the majority of 11 standard setters disagrees with the board's view. The reason that almost all of them mention is that reflecting the creditworthiness in measurement of an insurance liability provides no useful information to the users of the financial statements.

3.6.6. Supervisors

In this group are 7 supervisors of which 4 answer to the question. Only 1 of them agrees with the board's view and hence affirms both parts of the question. He bases this view on the belief that this kind of measurement *"includes all scenarios in which some or all contractual cash flows do not occur which is consistent with measurements based on expected values"*¹⁶⁵.

The remaining 3 commenters do not agree with the board's view. They all conclude that credit characteristics generally should not be reflected in the measurement of insurance liabilities as this would not provide relevant information to the users of the financial statements and is inconsistent with the going concern principle. It is interesting that 1 of them also thinks that this would not be consistent with the CEV

¹⁶⁵ CL 159, p. 9.

measurement. This is the same argument, as given above, the only proponent uses but for supporting the opposite view.

3.6.7. Financial service providers

In this group 11 out of 21 financial service providers refer to this question. Only 8 commenters answer directly on the first part of the question. Half of them agree with the board's view that the CEV of a liability is the price for a transfer that neither improves nor impairs its credit characteristics. The other half disagrees because they think the CEV is "*not observable in an active market*"¹⁶⁶ or they prefer another measurement basis, e.g. settlement value.

There is only 1 commenter who agrees with the board's view on the second part of the question. Another commenter agrees on reflecting the credit characteristics only at inception. But including subsequent changes of the credit characteristics in the measurement would "*misrepresent the performance*"¹⁶⁷. The remaining 9 financial service providers do not think that credit characteristics should be reflected. Beside those that generally prefer other measurement methods than the CEV, some argue that reflecting the credit characteristics of an insurance liability leads to inappropriate accounting. Recognising gains because an insurer's creditworthiness is deteriorating is counterintuitive and does not provide helpful information to the users of the financial statements.

3.6.8. Others

The 7 out of 18 commenters in this group answering to the question rather disagree with the board's view. Concerning the first part of the question 1 commenter agrees that the CEV of a liability is the price for a transfer that neither improves nor impairs its credit characteristics, but he considers the model inappropriate for insurance liabilities.

All of the 7 commenters would not reflect the credit characteristics in the measurement of an insurance liability at all. They state different reasons like, "*it*

¹⁶⁶ CL 76, p. 15.

¹⁶⁷ CL 152, p. 5.

would be inconsistent with the IASB framework”¹⁶⁸, it would not be significant and it results in an inadequate accounting system. 1 commenter rejects the board’s proposal as he states: “The suggested approach is confusing and dangerous to unsophisticated users.”¹⁶⁹

3.6.9. Summary

Among all groups there is a tendency towards not agreeing with the board’s view and preferring not to reflect the credit characteristics of a liability in its measurement. The strongest arguments in favour of this are that it does not provide useful information to the users of the financial statements and that the resulting accounting is counterintuitive.

A lot of commenters also criticize the CEV approach in general and prefer other measurement methods. But a lot of commenters that do not agree with the CEV in general admit that if the board decides to use the CEV approach as proposed in the DP, it would be conceptually correct that the CEV of a liability is the price for a transfer that neither improves nor impairs its credit characteristics. So beside practical considerations that do not support the board’s view, like the mentioned above, the general problem of acceptance of the CEV approach arises again.

3.7. The commenters’ views on conflicting treatment between insurance liabilities and financial liabilities (IAS 39)

3.7.1. Question 15

Appendix B identifies some inconsistencies between the proposed treatment of insurance liabilities and the existing treatment under IAS 39 of financial liabilities. Should the Board consider changing the treatment of some or all financial liabilities to avoid those inconsistencies? If so, what changes should the Board consider, and why?

¹⁶⁸ CL 176, p. 5.

¹⁶⁹ CL 3, p. 11.

3.7.2. Insurers

Only 25 out of 55 insurers answer to this question. 9 commenters just mention that this is not the right place to discuss this matter. They recommend that a working group should review the IAS 39 and say that comments will be given later on the DP for financial instruments.

8 commenters do agree with the board's view and wish consistency between the standards. 3 of them admit that there are some areas where it will not be possible to achieve consistency. An example is *"the option within IAS 39 to use amortised cost for financial liabilities, whereas the DP proposes that all insurance liabilities would be measured on a current value basis"*¹⁷⁰. Only a few commenters give concrete suggestions what should be changed to create consistency, but most of them concur that the treatment of financial liabilities under IAS 39 should follow the treatment of insurance liabilities.

There are 8 insurers that disagree with the board's view and think that the standards need not to be harmonized. Their main argument is: *"Insurance liabilities have different features to other financial liabilities and therefore these inconsistencies are appropriate."*¹⁷¹

3.7.3. Actuaries

7 out of 14 actuaries comment on this question. The clear majority of 6 of them agrees with the board's view that consistency should be achieved generally. While most support an alignment of IAS 39 to the new standard for insurance contracts, 1 commenter mentions an inconsistency, which is allowing gains at inception, that *"should be addressed by changing the proposes insurance accounting standard and not by changing IAS 39"*¹⁷². 2 actuaries give additional feedback on the following factors that differ between the standards: initial measurement, gain at inception, subsequent measurement, surrender value and policyholder behaviour, unit of account, revenue recognition and presentation, presentation of premiums, service

¹⁷⁰ CL 21, p. 10.

¹⁷¹ CL 136, p. 8.

¹⁷² CL 77, p. 16.

fee revenue, and investment management components. On most of these areas they refer to their responses to other questions. However, there is 1 commenter who requires no adjustments.

3.7.4. Accounting profession

20 out of 28 representatives of the group of accounting profession answer directly to question 15. 1 of them just states general concerns. He does not support the CEV approach for insurance liabilities and thinks the identified inconsistencies “*highlight the need for the IASB to resolve future direction of liability measurement and revenue recognition*”¹⁷³.

The clear majority of 16 commenters tends to agree on eliminating inconsistencies between the standards. Some of them mention especially the following problems that need to be addressed:

- The treatment of investment contracts with participating features and the treatment of unit-linked contracts with a small insurance risk component are not clear.
- Financial liabilities may be measured at amortised costs whereas insurance liabilities are measured on current values.
- The demand deposit floor needs to be reconsidered.

6 of the commenters supporting consistency think that this will not be possible for all matters. Inconsistencies that reflect difference in the nature of insurance contracts and financial instruments should remain. 3 of the commenters in favour of consistency as well as another 3 commenters mention that it would make more sense to discuss this issue later in time in conjunction with other projects, like those on financial instruments or the fair value measurement. 2 commenters even suggest the board to start a separate project on that matter.

¹⁷³ CL 122, p. 18.

3.7.5. Standard setters

There are 16 out of 19 standard setters that give their opinion on this question. 8 standard setters agree generally with the board's view and prefer to eliminate inconsistencies. They name the deposit floor, surrender values, the CEV and standards that apply to insurance and investment contracts as the most significant inconsistencies that need to be removed. Similar to most of the other groups, 2 of these commenters think some inconsistencies will not be removable because they reflect the unique characteristics of the underlying contract type.

Only 1 standard setter comments the issues identified in appendix B of the DP. He mainly refers to his answers to related questions or suggests that the treatments and principles in IAS 39 should be maintained.

4 commenters think the board should not make any efforts to avoid the inconsistencies between the standards. Each of them states a different reason:

- 1 commenter says he *“reject[s] the concept to account for insurance contracts as financial instruments. Hence, an amendment of IAS 39 in this regard is not necessary because IAS 39 would not be applicable.”*¹⁷⁴
- 1 standard setter mentions that, if the scope of the phase II standard includes investment contracts with discretionary participation features, it would allow the same accounting regardless of the classification of the contract.¹⁷⁵
- 1 standard setter thinks some inconsistencies are justified because they reflect the different nature of insurance contracts.¹⁷⁶
- 1 commenter disagrees *“that the treatment of financial liabilities should be changed based on the discussion on insurance liabilities”*¹⁷⁷.

3 commenters do not wish to comment on the problem of inconsistency in conjunction with insurance contracts. They think the board should first continue other projects like the review of IAS 39, the fair value measurement generally and the

¹⁷⁴ CL 141, p. 20.

¹⁷⁵ cf. CL 132, p. 12.

¹⁷⁶ cf. CL 158, p. 8.

¹⁷⁷ CL 71, p. 9.

revision of the conceptual framework and then overall discuss inconsistencies between standards.

3.7.6. Supervisors

There are only 7 supervisors of which 3 answer to the question. 2 commenters support the board's intention to eliminate the inconsistencies between the treatment of insurance contracts and IAS 39 for financial instruments. 1 of them is well persuaded that the CEV approach is appropriate for insurance liabilities and should be considered to be adopted on other standards as well. There is 1 commenter that comments directly on the issues identified in appendix B of the DP. He states on nearly all of these issues that the existing IAS 39 should not be changed or that the treatment should follow the existing IAS 39.

3.7.7. Financial service providers

13 out of 21 financial service providers give an opinion on this matter. There is tendency towards avoiding inconsistencies, as 8 commenters do support the board's view. They especially support the CEV as the fair value and suggest to change valuation under IAS 39. 2 of these commenters acknowledge that there are limitations for consistency in treatment of insurance contracts and financial instruments because of their different characteristics.

2 financial service providers think that some inconsistencies are appropriate. They also name the different characteristics as the reason for inconsistencies. A different treatment under IAS 39 and the standard for insurance contracts is acceptable *“where the measurement basis specified for the items under those Standards differs”*¹⁷⁸ and for the fact that *“insurance contracts transfer insurance risk as opposed to financial risk”*¹⁷⁹.

There are 2 commenters that think that it is yet too early to comment on this matter as some more standards may be revised in the next years. 1 financial service provider proposes to review the revised IFRS 4 in a few years and then compare it

¹⁷⁸ CL 157, p. 10.

¹⁷⁹ CL 72, p. 12.

with other standards. There is another commenter that gives no general statement on whether inconsistencies should be avoided or not, but he comments extensively on the topics stated in appendix B of the DP. These comments mainly recap the board's argumentations in the DP and the commenter's views on related questions.

3.7.8. Others

In this group only 5 out of 18 commenters answer to question 15. The comments are heterogeneous. 1 commenter agrees with the board's view to achieve consistency. But this commenter mentions that *"it is an open question in which direction convergence should take place if accounting more generally is not yet ready for full FV [fair value] accounting"*¹⁸⁰. 1 commenter does not share the board's view because he thinks that inconsistencies are acceptable due to the fundamental differences between insurance contracts and other financial products.¹⁸¹ Another commenter states that he does not support the CEV approach at all and there would be no inconsistencies with IAS 39 if this approach would not apply.

At least 2 commenters share an opinion. They think that these issues should not be discussed yet. It is better to think about these inconsistencies when reviewing the IAS 39 for financial instruments.

3.7.9. Summary

Overall, the commenters think that it is generally a good idea to eliminate inconsistencies between the standards. However, a lot of commenters see reasons to keep some inconsistencies in order to reflect the differences in the nature of insurance contracts and other financial instruments.

Many commenters suggest the board to discuss these issues not only in conjunction with the DP of insurance contracts. There are some other related projects that will generate relevant inputs that also need to be considered for minimizing inconsistencies.

¹⁸⁰ CL 11, p. 16.

¹⁸¹ cf. CL 3, p. 11.

3.8. The commenters' views on participating contracts

3.8.1. Question 16

- (a) For participating contracts, should the cash flows for each scenario incorporate an unbiased estimate of the policyholder dividends payable in that scenario to satisfy a legal or constructive obligation that exists at the reporting date? Why or why not?
- (b) An exposure draft of June 2005 proposed amendments to IAS 37 (see paragraphs 247–253 of this paper). Do those proposals give enough guidance for an insurer to determine when a participating contract gives rise to a legal or constructive obligation to pay policyholder dividends?

3.8.2. Insurers

42 out of 55 insurers do not answer to this question. This is because most of them note that their insurance product range does not include participating contracts, and they are not in the position to comment on this matter. So, only 13 insurers comment on the question. Generally, all of them support taking into account the expected cash flows that could occur. 7 insurers agree with part (a) of the question that the cash flows for each scenario incorporate an unbiased estimate of the policyholder dividends payable in the scenario to satisfy a legal or constructive obligation that exists at the reporting date. But 6 insurers do not agree with the constraint of legal or constructive obligation. Some of them have concerns that *“the proposed criterion – legal or constructive obligation – for incorporation of dividends in scenario cash flows will be interpreted too narrowly”*¹⁸².

12 of the 13 commenting insurers also answer to part (b) of the question. 4 of them would appreciate more guidance on the term of “constructive obligation”. 3 commenters state as reason for their view again that the definition could be interpreted too narrowly. 1 of them suggests that the definition *“should not necessarily be in contradiction with future developments in relation to IAS 37”*¹⁸³. 1 insurer thinks that local guidance would be needed because: *“The great variety of*

¹⁸² CL 17, p. 5.

¹⁸³ CL 101, p. 2.

*existing participating schemes makes it extremely difficult to write a general statement that works for all countries.*¹⁸⁴

6 commenters think that the proposed definition provides sufficient guidance to determine when a participating contract gives rise to a legal constructive obligation to pay policyholder dividends. There are 2 more insurers that think no guidance is necessary at all. But this is not surprising as these 2 commenters belong to the group that does not think that this obligation criterion is appropriate for measuring participating contracts.

3.8.3. Actuaries

There are 14 actuaries of which 10 answer to question 16, part (a). 4 commenters agree with the board's suggested measurement method for participating contracts. They think this is *"consistent with current portfolio exit value"*¹⁸⁵ and with *"the nature of the contracts and will provide meaningful information to users of financial statements"*¹⁸⁶. 1 of these commenters additionally mentions that it would be more appropriate to exclude the "established pattern of past practice" among practice of constructive obligation stated in the DP, and it should only apply to the case that the *"insurer has indicated to other parties that it will accept certain responsibilities"*.¹⁸⁷

There are 5 actuaries that do not overall agree with the board's definition. They think the limitation to dividends with legal or constructive obligations is not appropriate. A wider definition should be implemented. 1 of them argues that *"most of users of financial statements are interested in total expected contractual cash flows, even if they do not represent a legal or constructive obligation as currently defined in IAS 37, but nevertheless they comply with the definition of a liability given in the Framework, paragraph 60"*¹⁸⁸. The remaining actuary suggests using the national regulations of Sweden.

¹⁸⁴ CL 102, p. 39.

¹⁸⁵ CL 30, p. 14.

¹⁸⁶ CL 14, p. 15.

¹⁸⁷ cf. CL 78, p. 11.

¹⁸⁸ CL 97, p. 34.

8 actuaries also comment on part (b) of the question. Half of them think the proposed amendments to IAS 37 give sufficient guidance on when a participating contract gives rise to a legal or constructive obligation to pay policyholder dividend. The other 4 commenters require further explanations. 2 of them think specific insurance-oriented guidance should be added. 1 mentions that local guidance for each country based on its own legal system is necessary. Another commenter thinks it is not clear whether under the proposed amendments constructive obligations to future policyholders will be recognised.

3.8.4. Accounting profession

18 out of 28 commenters in this group give their opinion on participating contracts. 16 comment directly on part (a) of the question. The majority of 9 commenters agrees more or less with the board's approach. Some of them support their view by adding that including the proposed cash flows results in providing relevant information to the users of the financial statements. However, there are 6 commenters that do not fully agree with the board's view. Similar to other groups they criticise the limitation of constructive obligations. Although they explicate their opinions in various ways, they all come down to the following core argument: only including dividends where there exists constructive obligation is too limiting because all expected cash flows should be considered. 1 commenter disagrees with all of these views. He suggests the following approach: *"the recognition and derecognition requirements of IAS 39 should [...] apply to insurance accounting. Consequently the focus should be in contractual obligations, with these then being measured on the basis of expected cash flows."*¹⁸⁹

Only 8 commenters also answer to part (b) of the question. To 4 of them the existing amendments to IAS 37 are sufficient for determining when a participating contract gives rise to a legal or constructive obligation. The other 4 commenters are not satisfied with the given guidance on constructive obligations. They require further clarification. Regardless of whether they think the guidance given is sufficient or not, some commenters suggest that the board should include guidance on legal or constructive obligations directly in the new standard for insurance contracts rather than just referring to IAS 37.

¹⁸⁹ CL 125, p. 9.

2 commenters only give a general statement. They think that the issue not only affects insurance liabilities and that the board should consider it more generally. 1 suggests to hand this issue to the IASB project for liabilities and equity.

3.8.5. Standard setters

17 out of 19 standard setters comment at least on a part of this question. The 16 comments on part (a) are heterogeneous. 7 commenters agree with the board's view. But the remaining standard setters state all kinds of concerns. 3 commenters think that the board's approach is too limiting in matters of legal and constructive obligations. 2 standard setters would prefer expected future cash flows rather than estimated policyholder dividends as measurement basis. 2 commenters disagree with the board's view at all:

- 1 standard setter thinks *"participation of policyholders is to be considered as part of the best estimate liability"*¹⁹⁰.
- 1 commenter is of the opinion that regardless of the existence of a legal or constructive obligation, *"if the value of the liability is linked to the value of the assets, it would be inconsistent to recognize the value of the liability when the corresponding increase in the asset value is not recognised"*¹⁹¹.

2 commenters think that the DP does not provide enough detailed analyses and explanations on several issues concerning participating contracts and therefore they require further research.

Only 3 out of 14 standard setters commenting on part (b) think that the given guidance is sufficient. The clear majority of 8 commenters requires further guidance. It is again the definition of constructive obligations that seems not to be satisfactory to most of these commenters. 1 commenter thinks that the IAS 37 should not be used at all for insurance purposes. The remaining 2 commenters just give a general statement on IAS 37. They wait for the revised version of IAS 37 before any arguments or conclusions on participating contracts are given.

¹⁹⁰ CL 141, p. 20.

¹⁹¹ CL 121, p. 11.

3.8.6. Supervisors

In this group 4 out of 7 supervisors comment on participating contracts. 3 of them generally agree with the board's view on measuring participating contracts. Though 1 commenter admits that constructive obligations should only be recognised at the reporting date *"if it is probable that the insurer will make the payment"*¹⁹².

There is 1 commenter that does not agree with the board's view. He thinks that the proposed approach includes artificial constraints on the cash flows. This is not consistent with the CEV measurement attribute and therefore should not apply.¹⁹³

3 commenters also answer directly to part (b) of the question. 2 supervisors think the existing guidance on legal or constructive obligations is sufficient. 1 commenter would prefer that the standard for insurance contracts should include a clear statement about constructive obligations.

3.8.7. Financial service providers

For financial service providers this question seems to be not that relevant as only 10 out of 21 representatives of this group at least answer to a part of this question. 9 financial service providers comment on part (a). Compared to other groups, their views are largely homogeneous. 7 commenters agree with the board's view on this issue. Only 2 commenters state that they disagree with the proposed restriction, respectively constructive obligation criterion, which is deemed to be too limiting.

7 financial service providers answer to the second part. Solely 2 commenters think the given guidance is acceptable. 3 financial service providers do not support the definitions given in IAS 37, mainly because they think that the new definition in the revised IAS 37 may be too restricting. The remaining 2 commenters do not support a reference to IAS 37. They would prefer specific guidance to be included in the new standard for insurance contracts.

¹⁹² CL 159, p. 11.

¹⁹³ cf. CL 148, p. 27 – 28.

3.8.8. Others

6 out of 18 representatives of this group give their opinion on this question, whereas 1 commenter does not refer to part (a) and 1 commenter does not refer to part (b). Only 2 commenters agree with the board's view on part (a) of the question. For 3 commenters this definition seems to be too narrow. They mention different reasons:

- The definition circumscribes the CEV by reference to accounting rules for recognising assets and liabilities. This is conceptually irrelevant to the CEV and the results in “synthetic exit values”.¹⁹⁴
- All profit sharing developments should be included in the cash flows.¹⁹⁵
- *“Most of the dividends and variable interests corresponding to the individual life contract are not linked to the behaviour of any given economic index, so they should be part of the definition of inferred (assumed) obligations and they should be included in the valuation of liabilities in order to achieve an adequate valuation.”*¹⁹⁶

Concerning part (b) of the question, 2 commenters think the guidance given through amendments to IAS 37 is sufficient for participating contracts. 3 commenters do not agree with that view. They either think the given guidance may be too restrictive regarding future dividends and the definition of constructive obligations, or think that more specific guidance for insurers would be useful.

3.8.9. Summary

Compared to other questions, the number of commenters answering to question 16 is quite low. However, among all comments there are only very few that totally disagree with the board's view on the first part of the question. About the half of the commenters agrees with the proposed treatment of participating contracts. But there is still a large number of commenters that criticize the constructive obligations criterion. Most of them think this is too restrictive as all expected cash flows should be allowed to be included.

¹⁹⁴ cf. CL 11, p. 22.

¹⁹⁵ cf. CL 39, p. 5.

¹⁹⁶ CL 160, p. 12.

A similar argument arises within the comments on the second part. Those that are not satisfied with the guidance provided mainly mention the definition of a constructive obligation to be not broad enough. A lot of commenters would prefer specific and clear explanations within the new standard for insurance contracts rather than just referring to IAS 37.

3.9. The commenters' views on unit-linked contracts

3.9.1. Question 17

Should the Board do some or all of the following to eliminate accounting mismatches that could arise for unit-linked contracts? Why or why not?

- (a) Permit or require insurers to recognise treasury shares as an asset if they are held to back a unit-linked liability (even though they do not meet the *Framework's* definition of an asset).
- (b) Permit or require insurers to recognise internally generated goodwill of a subsidiary if the investment in that subsidiary is held to back a unit-linked liability (even though IFRSs prohibit the recognition of internally generated goodwill in all other cases).
- (c) Permit or require insurers to measure assets at fair value through profit or loss if they are held to back a unit-linked liability (even if IFRSs do not permit that treatment for identical assets held for another purpose).
- (d) Exclude from the current exit value of a unit-linked liability any differences between the carrying amount of the assets held to back that liability and their fair value (even though some view this as conflicting with the definition of current exit value).

3.9.2. Insurers

Only 14 out of 55 insurers answer to question 17. Not all of them refer to all of the 4 proposed possibilities in detail. There is only 1 commenter that disagrees with the board's idea of introducing insurance-specific exceptions in order to avoid accounting mismatches. This commenter prefers generally revised accounting requirements and

the application of the fair value option under IAS 39 to reduce mismatches.¹⁹⁷ 1 commenter solely states that the DP does not cover this issue accurately and hence, more specific considerations should be done due to the importance of unit-linked contracts in this commenter's country.¹⁹⁸

However, the clear majority of 12 insurers absolutely agrees with the board's general intension to eliminate accounting mismatches to the greatest extent possible. All of them also agree that the reason for these accounting mismatches is the different treatment in measuring assets and liabilities and therefore consistency needs to be created. 9 commenters explicitly support the suggested practice mentioned under part (a) of the question. 2 of them also name concrete reasons for this view:

- This exception is reasonable *"since the insurer would presumably not have the intent or ability to cancel these shares or use them for general account purposes"*¹⁹⁹.
- Treasury shares should not be treated differently to other investments if the investment *"is done to take advantage of short-term price movements"*²⁰⁰.

A few commenters would even encourage the board to extend this approach to non-linked contracts, e.g. participating contracts.

There are also 6 commenters supporting the suggestion under part (b) of the question. A minority of 2 insurers would not support this view. All of the 10 insurers referring to part (c) think that this method is appropriate and should be permitted. 1 of them acknowledges that this would conflict with other IFRS requirements but that the elimination of accounting mismatches justifies these conflicts.²⁰¹ The board's suggestion stated under part (d) is the only that does not obtain broad approval. Only 2 insurers would support this approach, but the majority of 7 insurers opposes it. Their main argument against it is that adjustments in the valuation are not appropriate in this case.

¹⁹⁷ cf. CL 10, p. 11.

¹⁹⁸ cf. CL 112, p. 2.

¹⁹⁹ CL 102, p. 40.

²⁰⁰ CL 46, p. 15.

²⁰¹ cf. CL 46, p. 15.

3.9.3. Actuaries

Half of the 14 actuaries in this group comment on this question. 1 commenter states generally that the board should consider other potential options to avoid accounting mismatches.²⁰² The other 6 actuaries refer to at least 1 of the 4 proposed approaches. 4 commenters agree with the proposal under part (a). 1 of them limits his approval to the extent that *“the shares are part of an outside/managed fund such as an index fund or mutual fund managed by a third party”*²⁰³. 2 commenters explicitly disagree with the first proposal. There are 3 actuaries that support the method suggested under part (b) of the question, and only 1 actuary that opposes it. On suggestion (c) and (d) in each case there are 5 commenters agreeing with the board’s proposal and 1 disagreeing. Some commenters limit their acceptance on proposal (d) to certain situations, e.g. *“where the benefits cash flows are directly linked to the value of the underlying asset”*²⁰⁴. It is interesting that 1 of the commenters agreeing with (d) disagrees with all the other approaches proposed. However, there is a general tendency towards supporting all methods that eliminate accounting mismatches.

3.9.4. Accounting profession

Out of 28 representatives of this group, only 17 comment on this question. Most of them give a general statement on unit-linked contracts and the accounting mismatches that could arise. Basically all commenters conclude that accounting mismatches should be avoided. But most of the commenters (5) think that it is not appropriate to define specific rules or make exceptions for unit-linked insurance contracts. They suggest the board to reconsider related accounting and measurement in a more general way. 2 commenters mention that this does not only affect insurance contracts and hence should be considered in conjunction with other IFRS and IASB projects. Another 2 commenters come to the same conclusion as the board: at this point they are not able to clearly decide whether to avoid accounting mismatches through the proposed approaches or through other adjustments. 1 commenter suggests the following practice: *“All obligations arising under insurance*

²⁰² cf. CL 13, p. 12.

²⁰³ CL 77, p. 17.

²⁰⁴ CL 14, p. 16.

*contracts should be recognised as liability, including those that are linked to value of investments. [...] We believe that the presentation of assets as one separate line is the most transparent categorisation.*²⁰⁵

There are 7 commenters that refer to each of the proposed approaches specifically. The comments on the proposals (a) to (c) are all the same: 5 commenters agree and 2 commenters disagree on each. The opponents of these approaches mention as a core reason to support their view that it would create inconsistency with other IFRS requirements resulting in a different treatment with entities that do not issue unit-linked insurance contracts. Although most commenters support the first 3 proposals of the board, only 1 agrees with the approach stated under part (d) of the question. This is the only commenter is that thinks that the reasons for adjusting listed in the DP are reasonable. The clear majority of 6 commenters does not think that insurance liabilities should be adjusted.

3.9.5. Standard setters

16 out of 19 standard setters comment on question 17. Not all of them give a statement on each proposal. 2 commenters generally mention that the board should not allow rules or exceptions solely for unit-linked insurance contracts. They prefer the board to review the underlying principles in order to find a more general solution on these issues. 1 standard setter just says that all assets should be measured at fair value without going into more detail.²⁰⁶ 1 commenter stands out among all others because he thinks *“the Board should do nothing to eliminate the so-called ‘accounting-mismatches’ that could arise for unit-linked contracts”*²⁰⁷. He even thinks just the suggested approaches would result in “accounting mismatches”, mainly because it would limit the consistency and comparability with non-unit-linked contracts.

²⁰⁵ CL 120, p. 11.

²⁰⁶ cf. CL 141, p. 21.

²⁰⁷ CL 151, p. 14.

Beside these general statements there are also some commenters that answer specifically to 1 or more of the 4 parts of the question. 9 standard setters support the proposal under part (a). 3 of them limit their approvals in the following ways:

- 1 agrees on this approach for shares that are held purely for the beneficial ownership of policyholders.²⁰⁸
- 1 agrees only because of pragmatic reasons. Theoretically such constructs should be reflected in equity.²⁰⁹
- 1 thinks own shares should only be recognised as an asset *“if the whole risk of the portfolio is transferred to the policyholders and the portfolio is deemed to be a kind of trustee account for the account of the policyholders”*²¹⁰.

There is 1 commenter that does not support this approach at all because it is inconsistent with the framework. On the second proposal under part (b) of the question there are 6 standard setters that support this approach. 3 standard setters do not agree with that. A clear majority of 10 commenters support the third approach and the fair value measurement. 1 of them even thinks that all assets should be measured at fair value. Only 2 standard setters disagree with that proposal. Similar to most of the other groups there is only 1 standard setter supporting the suggested approach under part (d). This commenter does only support this proposal because he thinks this is more pragmatic than changing the treatment of assets towards a fair value measurement approach.²¹¹ But the remaining 8 commenters do not support this because they do not consider the resulting value to be consistent with the CEV approach.

3.9.6. Supervisors

Like within most of the other questions only 3 out of 7 supervisors comment on this matter. 2 of them think that accounting mismatches should be eliminated but this does not only apply to unit-linked insurance contracts. The board should try to find a more general solution that works for all affected standards. The third supervisor only comments on 2 of the 4 proposals. This commenter would agree on the approach

²⁰⁸ cf. CL 109, p. 43.

²⁰⁹ cf. CL 22, p. 17.

²¹⁰ CL 85, p. 13.

²¹¹ cf. CL 15, p. 12.

stated under part (a), but does not support the approach stated under part (b) because it is also not allowed under IAS 38 for intangible assets.²¹²

3.9.7. Financial service providers

10 out of 21 financial service providers answer to question 17. Most of them mention explicitly that they support the board's intention to eliminate accounting mismatches as far as possible. 5 financial service providers support the proposal under part (a) of the question. Only 2 commenters do not think that treasury shares should be recognised as an asset. The same 2 commenters do also disagree with the suggested solution stated under part (b). There are still 4 financial service providers that would support this approach. The comments on part (c) are homogeneous as they are all supportive. The group of financial service providers is the only group where especially the suggested approach in part (c) is preferred. Most of the other groups support primarily proposal (a). But similar to the other groups is that the majority of 5 financial service providers do not agree with the suggestion under part (d) of the question. They do not think that the value this method would create is correct. Only 3 commenters would support this approach, but these commenters would generally support any action that eliminates accounting mismatches.

3.9.8. Others

6 out of 18 representatives of this group give a statement on this question. Only 1 of them refers directly to the proposals (a) to (d). This commenter supports the board's general view that accounting mismatches should be avoided. Therefore the commenter agrees with the proposals (b) and (c) but not with (d). For the suggested approach under part (a) this commenter requires *"the board to fully explore a) and its possible implications"*²¹³. All of the other commenters give only general comments on accounting mismatches and unit-linked contracts. They suggest other ways to avoid the identified accounting mismatches and require deeper or broader considerations on these measurement issues.

²¹² cf. CL 159, p. 11 – 12.

²¹³ CL 91, p. 9.

3.9.9. Summary

All in all the commenters' views on the approaches proposed by the board are not homogenous. There is a slight tendency towards supporting the proposals (a) to (c), i.e. adjusting the treatment of assets in conjunction with unit-linked insurance contracts. Most commenters do not support the approach stated under part (d) of the question. It is interesting that most of the commenters agreeing with 1 or more of the first 3 approaches do not support the fourth approach, and vice versa.

There are a lot of commenters that answer to the question in a more general way. It is often mentioned that there should be no specific rules or exceptions for unit-linked insurance contracts as avoiding accounting mismatches should be an aim within other forms of contracts and standards as well. They often request the board to consider these issues more generally.

3.10. The commenters' views on presentation of premiums

3.10.1. Question 18

Should an insurer present premiums as revenue or as deposits? Why?
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3.10.2. Insurers

32 out of 55 insurers comment on this question. There is a clearly identifiable trend towards presenting premiums as revenue. 23 insurers support this kind of presentation. There are 4 reasons that are stated often to justify this view:

- In general or short-term insurance business *"insurers provide risk services to policyholders and for the risk underwriting and other risk services receive revenue in the form of premium"*²¹⁴.
- Premiums earned or revenue in general is commonly used as a key indicator to evaluate an entity's performance. This is why premiums should be presented as revenue to provide information to users of the financial statements.

²¹⁴ CL 45, p. 14.

- Insurance premiums meet the definitions under several related accounting standards like IAS 18, Statement of Financial Accounting Concepts (SFAC) 6.
- Insurance premiums do not withstand a comparison with bank deposits and therefore should not be presented as deposit.

However, it should be mentioned that a lot of the commenters in favour of presenting premium as revenue do limit this view to general insurance and non-life insurance business, as indicated in the first reason above. For some insurers the answer to this question also depends on what they think about unbundling. Commenters that support unbundling of an insurance contract's components limit their proposal on revenue presentation to the extent that unbundling is not required, i.e. the contract contains no deposit components. Opponents of unbundling would always support the presentation as revenue.

4 commenters think that the presentation of premiums depends on the kind of contract underlying respectively the main features of the contract. Presentation as revenue may be appropriate for contracts transferring significant insurance risk or that are short-termed. Especially property and casualty contracts are mentioned as examples. For other insurance contracts it may be proper to present premiums as deposits.

There are 5 insurers that conclude on this issue in the same way as the board. They are not able to clearly decide on this at that time, although they think it is important and a uniform approach may be desirable. Some mention that it is a *“difficult and complex area and will need further careful consideration as the standard is developed”*²¹⁵. 1 of these commenters just states that it is first priority what users of financial statements think and therefore it may be the best solution to ask them which method they would prefer.²¹⁶

²¹⁵ CL 117, p. 18.

²¹⁶ cf. CL 62, p. 18 – 19.

3.10.3. Actuaries

Out of 14 commenters in this group 9 actuaries answer to question 18. There are 6 commenters that would always present premiums as revenue. They name different reasons for this view but the most frequent argument simply is that all contracts that qualify as insurance should be treated as a whole. Hence, the different components should not be unbundled and the whole premium should be presented as revenue. 1 actuary even says that premiums can never be deposits because they do not belong to the policyholders, as insurers use the premiums to fulfil the obligations for a whole portfolio of insurance contracts.²¹⁷

2 actuaries would use both, presentation as revenue or as deposit depending on the components of the contract. 1 commenter is not able to prefer a view and therefore presents 2 approaches:²¹⁸

- Show all premiums as deposits because the income statement should reflect what the shareholder is entitled to.
- Show premiums as revenue as this is the easier approach and current method of insurers.

3.10.4. Accounting profession

20 out of 28 representatives of accounting profession answer to the question. The comments vary a lot. In this group there are 2 commenters that prefer premiums to be presented as deposits out of different reasons:

- 1 thinks that the *“acceptance of insurance risk is more similar to writing of options or accepting deposits than it is to providing a service”*²¹⁹. Financial options under IAS 39 do not recognise cash received as revenue. Insurance contracts should be treated in the same way.²²⁰
- The other 1 argues that most life insurance products have a deposit element and therefore premium should be presented as deposit.

²¹⁷ cf. CL 74, p. 11.

²¹⁸ cf. CL 30, p. 16.

²¹⁹ CL 92, p. A-16.

²²⁰ cf. CL 92, p. A-17.

There is a majority of 8 commenters that wishes premiums to be presented as revenue. Their main argument is that insurance contracts reflect some kind of service. Provisions for services not related to insurance contracts are regularly accounted as revenue. Hence, the “insurance service” should also be accounted this way. 4 commenters support to permit the use of both presentation possibilities, depending on the type of contract. The insurer may either have a free choice on how he presents premiums or should distinguish between long-term and short-term insurance contracts.

1 commenter is remarkable because he would neither present premiums as revenue nor as deposits. This commenter suggests revenues to be recognised as the release of risk or service margins and changes in net liabilities.²²¹ The remaining 5 commenters state more general considerations. 2 of them just mention that the issue on presentation should be considered in consistency with the issue on unbundling. The other 3 commenters think that this issue is better off to be discussed in the context of the IASB project on financial statement presentation.

3.10.5. Standard setters

15 out of 19 standard setters comment on this matter. Most of them argue in a similar way. There are 7 standard setters that would generally present premiums as revenue except there is a deposit element that can be unbundled in a non-arbitrary way. In that case this component should be accounted for as deposit. Another 3 commenters share a similar view. They would support both possibilities of presenting insurance premiums depending on the type of the underlying contract or type of elements included in the contract. They especially think that premiums related to investment elements should not be presented as revenue.

1 commenter proposes an accounting model where *“the revenue entries are triggered by corresponding decreases of the liability and deferred income”*²²². 4 standard setters solely mention general considerations like the conjunction to issues of other IASB projects.

²²¹ cf. CL 60, p. 10.

²²² CL 141, p. 21.

3.10.6. Supervisors

Out of 5 supervisors only 3 answer to this question. Their comments are similar to those of the group of standard setters. 2 supervisors think that the presentation of premiums is linked to unbundling of insurance contracts. Premiums that relate to insurance risks should be presented as revenue and only unbundled deposit components should be accounted for as deposit. The remaining commenter thinks that overarching principles for recognition are necessary to decide on this issue.

3.10.7. Financial service providers

13 out of 21 financial service providers answer to question 18. There are 6 commenters that would support presenting premiums as revenue exclusively. The main reason for their view is that this is consistent with current practice and they see no reason to change this. Users of financial statements expect this presentation and hence this approach provides best information to them. Some financial service providers also mention that the nature of an insurance contract is more like a service contract and therefore premiums should be treated as revenue.

However, there are 6 financial service providers that would support both, presentation as revenue and presentation as deposits, depending on the characteristics. 4 of them think the treatment depends on the type of contract. Presentation as revenue is appropriate for non-life or short-term contracts and contracts with adequate risk transfer. For other types of insurance contracts, e.g. life insurance, it may be more appropriate to present premiums as deposits. 1 commenter says that the presentation of premiums should be consistent with the treatment of the contract, i.e. unbundling. The part of the premium relating to the unbundled insurance components should be presented as revenue and the part related to the unbundled investment components should be presented as deposit. There is 1 commenter that supports both distinctions. He would present premiums as revenue if:²²³

- the underlying contract is a pure risk contract,
- there is an unbundled risk component and

²²³ cf. CL 44, p. 19.

- the contract cannot be unbundled.

1 financial service provider solely comments in general, stating that this issue is not so important, but he would prefer a solution that is not “bifurcated”.²²⁴

3.10.8. Others

6 out of 18 representatives of this group comment on question 18. 1 of them just states largely general considerations without proposing a concrete answer to the question. The commenter says that the key issue of how different approaches provide information for managers and users of the financial statements should be considered when deciding on presentation matters.²²⁵

The other 5 commenters share more or less the same view, as they are all in favour of presenting premiums as revenue. The main reasons they name to support this view are that this provides best information for uses of the financial statements and that it reflects the transfer of risk. 2 of them admit that this is only thoroughly valid for non-life insurance contracts and insurance contracts without deposit components.

3.10.9. Summary

Generally 3 kinds of views among all groups can be identified:

- Premiums should always be presented as revenue.
- The presentation of premiums depends on the type of the underlying contract. Short-term or non-life insurance contracts should present premiums as revenue. Long-term or life insurance contracts should present premiums as deposits.
- The presentation of premiums should be consistent with the results of unbundling the contract. Premiums of the insurance components should be presented as revenue and premiums of the investment components should be presented as deposits.

These views are relatively uniformly distributed among all commenters. There are hardly any commenters that would always prefer premiums to be presented as

²²⁴ cf. CL 2, p. 6.

²²⁵ CL 11, p. 32.

deposits. All of them state similar arguments to support their view. They mainly name the best information to the users of the financial statement and the best method reflecting the nature of the contract as reasons.

3.11. The commenters' views on separate presentation of income and expense items

3.11.1. Question 19

Which items of income and expense should an insurer present separately on the face of its income statement? Why?

3.11.2. Insurers

29 out of 55 insurers comment on question 19. Beside a group of commenters that only provide general statements, 2 main groups of comments can be identified:

- those that cannot answer to the question at this point in time and
- those that give concrete suggestions on what should be presented on the face of an insurer's income statement.

9 insurers belong to the first group. They think this issue cannot be discussed at this point, because it depends on final decisions on issues of previous questions, e.g. the measurement model or it should be discussed within other IASB projects, mainly the financial statement presentation project.

The bigger part of 13 insurers belongs to the second group providing concrete suggestions. It is difficult to evaluate this group in detail because they partly refer to different levels of aggregation when proposing concrete items. Furthermore, some comments solely apply to a certain kind of insurance business and therefore quote very specific items. However, most commenters agree with the following:

- Revenue should incorporate sub-groups like premiums, investment income and other income.
- Premiums should be divided in at least written and earned premiums.
- Tax expenses should be presented out-of-line with other expenses.
- Income and expenses arising from reinsurance contracts should be presented separately within the categories.

The remaining 7 insurers solely give general statements. Most of them mention that detailed disclosure requirements should be required. Commenters from Australia and New Zealand suggest taking over their respective national regulations. Among all insurers it is often mentioned that whatever the presentation of the income statement includes it is important *“to provide the users meaningful information to assess financial performance and make informed decisions”*²²⁶.

3.11.3. Actuaries

Only 6 out of 14 actuaries answer to this question. The majority of 4 of them thinks that a *“minimal set of items”*²²⁷ is sufficient and the focus should be on detailed disclosures and notes to the financial statements. Too much information on the face of the financial statements may result in not providing appropriate transparency to the financial statement users.²²⁸ 1 commenter thinks that the traditional income statement extended to a “source of profit” analysis is sufficient.²²⁹ 1 actuary just generally mentions that this not really an actuarial issue, but as actuaries need to be able to calculate their components proper actuarial input should be considered.²³⁰

3.11.4. Accounting profession

There are 28 representatives in this group of which 20 answer to this question. The majority of 11 of them thinks that there can be no answer as long as there are other related issues that need to be addressed first. These commenters mention especially the board’s projects on performance reporting respectively financial statement presentation as well as the final measurement approach for insurance contracts. 3 commenters suggest that the income statement should include detailed information about the changes in the liabilities. They think this is important information to the users of the financial statements in order to understand an insurer’s results.

The remaining 6 commenters state various comments. Some think that the new standard should only demand some key items that should be presented on the face

²²⁶ CL 82, p. 9.

²²⁷ CL 111, p. 10.

²²⁸ cf. CL 97, p. 41.

²²⁹ Cf. CL 30, p. 16.

²³⁰ cf. CL 77, p. 17 – 18.

of the income statement. 1 commenter even thinks that there should be no mandatory requirements at all.²³¹ Another commenter believes that: “A *traditional income statement provides relevant and reliable information to the users of financial statements.*”²³²

3.11.5. Standard setters

15 out of 19 standard setters comment on this question. 2 major groups of comments can be identified. 6 standard setters belong to the group that would appreciate a principle-based presentation of the income statement and therefore refer to IAS 1. Major line items should be presented in order to provide clear information to the users of the financial statements. Additional line items can be presented on the face of the income statement “*when such presentation is relevant to an understanding of the entity’s financial performance*”²³³. Details may also be disclosed in notes to the income statement.

5 standard setters belong to the other major group. They think the issue of presentation can only be discussed within the scope of the financial statement presentation project or after finally concluding on the issues of recognition and measurement of insurance contracts.

3 setters state concrete items that should be presented on the face of the income statement. 2 of them base their lines on the different kind of income and expenses of an insurer. They would use gross numbers and separate lines for reinsurance items. The other commenter gives details for a margin presentation. He lists lines for measuring the primary margin of the insurance transactions and for the financial margin and investment contracts.²³⁴

The remaining commenter solely provides the general statement that the financial statements should provide necessary information to understand the result of the

²³¹ cf. CL 92, p. A-17.

²³² CL 29, p. 7.

²³³ CL 141, p. 21.

²³⁴ cf. CL 73, p. 14.

insurer. This commenter suggests the board to ask a group of users to identify what presentation and disclosures would be helpful.²³⁵

3.11.6. Supervisors

3 out of 7 supervisors answer to the question. All of them state different comments. 1 generally mentions that this use requires a formal consultation and assessment process to define overarching principles.²³⁶ The other 2 supervisors comment more specifically. 1 of them thinks that many national reporting practices “*provide useful information to users of the financial statements for calculating key performance indicators*”²³⁷ like combined ratios. These should be kept. The third commenter prefers to present changes in the carrying amount of insurance liabilities as a single line item in profit or loss. Details and specified components should be presented in the notes to the financial statements.²³⁸

3.11.7. Financial service providers

Only 10 out of 21 financial service providers comment on this question. Their answers are heterogeneous. There are 3 commenters that would support the requirements of IAS 1 with adequate additional disclosures or notes as far as these help users to better understand the insurer’s activities. 1 commenter proposes a similar approach but without referring to IAS 1. Furthermore, this commenter suggests specific segment disclosures to life or non-life insurances. 2 financial service providers think it is premature to answer to this question as there are other issues that should be addressed first, e.g. the financial statement presentation project.

The remaining 4 financial service providers suggest the following different approaches:

- Beside the general presentation of policyholder receipts as premiums and policyholder payments as claims, there should be included more detailed

²³⁵ cf. CL 151, p. 15.

²³⁶ CL 143, p. 19.

²³⁷ CL 148, p. 29.

²³⁸ cf. CL 159, p. 12.

information on net investment income and on changes in actuarial liabilities..²³⁹

- There should be an analysis for the changes in the carrying amount of insurance liabilities for life insurance business.²⁴⁰
- 1 commenter suggests the following main line items: new business-new policyholders, previous years' business, investing and financing activities and net profit (loss).²⁴¹
- Another commenter proposes a list of items that he thinks provide important information and help understanding the process. These items are: gross premiums written, net premiums written, earned premium, losses, policy acquisition expenses and operating expenses.²⁴²

3.11.8. Others

6 out of 18 representatives of this group give a statement on question 19. 3 of them principally agree that the classic income statement should be used. They either list the corresponding items or mention that the currently presented income statement may be extended with some additional disclosures. 1 commenter suggests *“the income statement should include all changes in the carrying amount of insurance liabilities”*²⁴³ and that shadow accounting should not be allowed. The other 2 commenters state general comments. Like within other groups, the Australian commenter suggests to adopt the detailed Australian disclosure requirements.²⁴⁴ The remaining commenter solely mentions that *“the analyst community is fully involved in this regard, as they are the prime users of the output”*²⁴⁵.

3.11.9. Summary

All in all the answers to question 19 are varying a lot. There cannot be identified a clear tendency among all commenters. A big part of all commenters refer to other related issues or other IASB projects, e.g. the measurement model or financial

²³⁹ cf. CL 1, p. 17.

²⁴⁰ cf. CL 2, p. 6.

²⁴¹ cf. CL 27, p. 13.

²⁴² cf. CL 26, p. 13.

²⁴³ CL 42, p. 4.

²⁴⁴ cf. CL 98, p. 11.

²⁴⁵ CL 11, p. 33.

statement presentation project, that should be addressed first before answering to this question.

However, some commenters give concrete suggestions on what the face of an insurer's income statement should look like. Some of them prefer various sub-items, whereas others prefer solely clear main line items. Many commenters think the requirements of IAS 1 should also apply to insurers and, if necessary, detailed and specific information could be disclosed in the notes. The remaining commenters solely provide general statements.

3.12. The commenters' views on changes in the carrying amount of insurance liabilities

3.12.1. Question 20

Should the income statement include all income and expense arising from changes in insurance liabilities? Why or why not?

3.12.2. Insurers

33 out of 55 insurers answer to question 20. The clear majority of 20 insurers agrees with the board's view that all changes in insurance liabilities should be presented in the income statement. The main reasons for this view are:

- It provides helpful information to the users of the financial statements.
- This is the most transparent recognition method.
- It would not be appropriate to show these changes elsewhere.

3 of these commenters mention that the relevant changes in assets should be included too. Another 2 insurers additionally refer to other IASB projects, e.g. financial statement presentation, that may have impact on this matter and therefore should be considered.

There are 5 insurers that would agree at least to some extent. They think the changes in insurance liabilities should only be included up to a certain degree or

under certain circumstances. 1 thinks that this is only relevant for life insurance liabilities, whose changes should only be presented if they are material.²⁴⁶ This commenter also lists some facts that should be included in the “change in reserve” line item. 1 insurer thinks that movements in foreign exchange should be material to be included.²⁴⁷ 2 insurers think that all income and expense arising from changes in insurance liabilities should be included “*unless those changes are hypothetical in nature*”²⁴⁸. 1 commenter prefers a line for the changes in insurance liabilities to be included in the income statement and further details to be given in the notes.²⁴⁹

5 commenters do not agree with the board’s view. They at least partly prefer recognising changes in insurance liabilities through equity respectively other comprehensive income. Most of them especially refer to accounting mismatches that can arise in conjunction with assets backing insurance liabilities classified as available-for-sale under IAS 39. Changes of such assets would be recorded in equity and hence, the changes of the underlying liabilities should be recorded in equity too. 1 of these commenters even generally thinks that the income statements as a whole do not provide appropriate information to the users of the financial statements and prefers some reflection of unrealized gains and adjustments in the statement of comprehensive income.²⁵⁰

The remaining 3 insurers say that they cannot or do not want to comment on this matter at this point in time as there are other issues that need to be clarified before. They mean the understanding of the measurement approach and the financial presentation project that should deal with this matter. It is also suggested to conduct a survey among users of the financial statements asking what kind of information they wish to be included.

²⁴⁶ cf. CL 102, p. 44.

²⁴⁷ cf. CL 124, p. 13.

²⁴⁸ CL 61, p. 20.

²⁴⁹ cf. CL 150, p. 17.

²⁵⁰ cf. CL 82, p. 9 – 10.

3.12.3. Actuaries

9 out of 14 actuaries comment on this matter. 4 of them support including all changes in insurance liabilities in the income statement. Another 3 actuaries would agree on that up to a certain degree. 2 of them think that for changes in insurance liabilities that solely arise from changes in the underlying assets' value adequate disclosures would be sufficient. 1 of these 2 commenters furthermore thinks that effects on liabilities of changes in discount rates should be reflected in other comprehensive income.²⁵¹ 1 actuary thinks that changes in insurance liabilities should be included in the income statement only where the measurement and recognition of assets and liabilities are consistent.²⁵²

1 actuary thinks that presenting volatility from measurement of insurance liabilities in the income statement may be confusing for users of the financial statement and therefore suggests the following alternative treatment: either present the income and expense arising from changes in the insurance liabilities in other comprehensive income and add suitable footnotes, or reflect these measurement solely through footnotes and not directly on the face of the financial statements.²⁵³ Another actuary does not mention a concrete view on this matter but expresses concerns *“that actuaries be able to calculate the actuarial items in a non-arbitrary basis”*²⁵⁴. The board should consider this when deciding on this issue.

3.12.4. Accounting profession

20 out of 28 representatives in this group answer to question 20. 11 commenters think that all changes in insurance liabilities should be included in the income statement. Most commenters add that they generally wish to avoid accounting mismatches and shadow accounting. In some cases, if changes in assets are realised in other comprehensive income, it would be more appropriate to realise the changes of the underlying liabilities in other comprehensive income too.

²⁵¹ cf. CL 97, p. 42.

²⁵² cf. CL 70, p. 5.

²⁵³ cf. CL 78, p. 13.

²⁵⁴ CL 77, p. 18.

6 commenters think that this issue should be discussed within the scope of the financial presentation project. 2 commenters just mention that they think the traditional income statement is appropriate. 1 commenter solely states that the income statement generally should provide enough details to enable meaningful analyses to the users of the financial statements.²⁵⁵ These commenters give no further comments.

3.12.5. Standard setters

17 out of 19 standard setters answer to this question. Their views are quite heterogeneous. Only 6 standard setters agree with the board's view that the income statement should include all changes in the carrying amount of insurance liabilities. The reason to support this view is for most of them that this would be consistent with the CEV approach. 1 of the agreeing commenters mentions that he only agrees in terms of presentation but not when determining profit or loss.²⁵⁶ This applies more to other questions posed in the first half of the DP. 2 standard setters generally agree to include the changes in liabilities in the income statement but would prefer to present some elements or details in the footnotes rather than on the face of the income statement

However, there are still 2 standard setters that generally disagree to include all changes in the income statement. 1 commenter proposes his own approach for insurer's accounting leading to a different presentation of changes in insurance liabilities. 6 standard setters think that it is too early to answer to this question. The board should first conclude on other issues, e.g. measurement of insurance contracts and other projects like the financial statement presentation project. The board could also ask some users of financial statements what they want to be presented and disclosed.

3.12.6. Supervisors

Similar to most of the other questions, 3 out of 7 supervisors comment on this matter. 2 of them agree with the board's view and support including all changes in insurance

²⁵⁵ cf. CL 31, p. 7.

²⁵⁶ cf. CL 85, p. 15.

liabilities in the income statement. 1 states as reason that *“premium received is recognised as revenue in the income statement and, therefore, any changes in the insurance liabilities should also be reflected”*²⁵⁷.

There is 1 commenter who thinks there needs to be an overarching criteria or principle for recognition purposes.²⁵⁸ This commenter states this general view also under questions 18 and 19 as they all belong to the same main issue.

3.12.7. Financial service providers

There are 28 financial service providers of which 13 answer to this question. The majority of 9 financial service providers supports the board’s view to include all changes in insurance liabilities in the income statement. They name various reasons for this view, including especially that there is no conceptual reason to do otherwise and that this approach provides most transparency to the users of the financial statement. 1 of these commenters admits that this approach also bears some disadvantages like more volatility in the income statement.²⁵⁹

However, there are 4 commenters that disagree with the board’s view and think it is not the best approach to include the movements in insurance liabilities in the income statement. 1 thinks that the board’s approach would not be the most meaningful presentation of the performance and suggest that *“subsequent changes in the measurement of insurance liabilities that relate to changes in the value in financial market data be recognised as an element of other comprehensive income”*²⁶⁰. The other 3 commenters state reduction of complexity or volatility as reasons for not including the changes in the income statement.

3.12.8. Others

6 out of 18 representatives of this group comment on question 20. The clear majority of 5 commenters supports the board’s view to include all changes. They think it is proper, transparent or consistent with the treatment of assets and liabilities under a

²⁵⁷ CL 159, p. 12.

²⁵⁸ cf. CL 143, p. 19.

²⁵⁹ cf. CL 27, p. 11.

²⁶⁰ CL 157, p. 13.

fair value, respectively the CEV, approach. 1 of these commenters is of the view that only a single amount in the income statement should reflect the changes in liabilities and details should be given through appropriate footnotes in the financial statements.²⁶¹

1 commenter disagrees to this view. He thinks in contrast to the board that there are practical and conceptual issues that may bear arguments against including all changes, stating the following examples:²⁶²

- It is not clear how much of the change should be recognised.
- Effects of changes in interest rates could be paradoxical.
- The question arises whether effects of inflation should be excluded.

3.12.9. Summary

The majority of all groups tends towards including all income and expenses from changes in insurance liabilities in the financial statements. They think that there is no conceptual or practical reason not to do so, that it provides a high level of transparency and that it generates detailed information to users of the financial statements. There are commenters that would agree with that to some extent. It is often mentioned that the face of the financial statements should only include a single line item reflecting the movements in insurance liabilities and details should be given in the footnotes. Some commenters think that the changes in liabilities need to be material to be included.

However, there are a few commenters that do not support including all changes in insurance liabilities in the income statement. Their arguments against that are that it causes high volatility and complexity. Furthermore, there are assets whose changes are recognised in other comprehensive income and therefore, the underlying liabilities should be treated the same way.

Besides, there is a group of commenters that do not express their views on this question because they think that this issue should not be discussed at this point in

²⁶¹ cf. CL 42, p. 4.

²⁶² cf. CL 11, p. 32.

time. First other issues concerning insurance contracts need to be addresses, especially the issue of measurement and recognition. Moreover, there are other IASB projects like the financial statement presentation project that should deal with this question anyway.

3.13. The commenters' views on other matters

3.13.1. Question 21

Do you have other comments on this paper?

3.13.2. Insurers

All insurers make comments that can be allocated to this question in some way. With 23 commenters, more than half of all insurers mention additional issues or concerns on the proposed measurement methods for insurance contracts. They especially criticise the CEV approach and the three building blocks. While some commenters generally support the three building blocks, a lot of insurers do not think that the CEV is the best approach.

14 insurers think that the board should consider field testing before implementing the final version of the new standard for insurance contracts. 13 insurers think that the new standard should be in line with "Solvency II". 10 commenters note that the underlying DP does not provide sufficient statement about disclosure requirements for insurers. The final standard should include adequate requirements. There are several further topics that are addressed by 7 or more insurers: the definition of insurance, other IASB projects and the question of whether the same approach should be implemented for all kinds of insurance contracts.

3.13.3. Actuaries

All except 1 actuary state some kind of other comments on the DP. Their statements are heterogeneous, but there are some topics that are repeatedly dealt with:

- 4 actuaries state general considerations about the proposed measurement method.
- 3 actuaries think that the DP should pay attention to issues in conjunction with (deferred) taxes.

2 actuaries adumbrate their national regulations or practices. The remaining actuaries name different issues of which they think the DP does not deal accurately with.

3.13.4. Accounting profession

Only 2 representatives of this group give no additional comments. Like within most of the other groups, the majority of 15 commenters often state their general opinion about the proposed measurement approaches. Some commenters prefer a settlement value instead of the CEV.

Several commenters note that the final phase II standard should include specific disclosure requirements for insurers. A few commenters refer to other IASB projects and other standards that should be considered together with the project respectively standard on insurance contracts.

3.13.5. Standard setters

All except 1 standard setters comment on additional issues beside the specific questions. More than half of them (10) somehow refer to the measurement model proposed in the DP. Some require a more detailed description, others solely state generally whether they support the proposed model or not. Similar to the other groups, some standard setters discuss 1 or more of the following 3 topics: disclosure requirements, other IASB projects and the need for field testing.

3.13.6. Supervisors

All supervisors give statements that belong to this question. The topics that are dealt with the most are again the measurement approach and lack of disclosure requirements. 1 commenter even proposes his own measurement model, calling it “A coherent Approach to the Treatment of Service Margins and Profit at Inception for Insurance Contracts”²⁶³.

²⁶³ CL 154, p. 1.

3.13.7. Financial service providers

Only 1 financial service provider does not state any other comment on the DP. The comments of the other financial service providers are heterogeneous and there are hardly any issues that occur more often. The issue that is addressed the most is the proposed measurement method. 8 commenters state their opinion on the measurement issue. 4 commenters think the final version of the new standard should include detailed disclosure requirements. These seem to be the most popular topics among all groups.

However, there are some commenters in this group expressing interesting views. 4 financial service providers think that the IASB should work closely together with the FASB or even adopt the regulations of United States Generally Accepted Accounting Principles (US GAAP). 3 commenters think that the proposed accounting model in the DP is too difficult to understand for users of the financial statement or does not reach its objective of introducing a suitable accounting principle.

3.13.8. Others

In this group all except 1 commenter mention issues that can be allocated to this question. There are 3 topics that are addressed often: the measurement approach, the scope of the standard and national standards or practices that should be adopted by the board.

3.13.9. Summary

Apart from very few exceptions, all commenters answer somehow to the last question. This is because all of the following comments are taken into consideration:

- direct answers to the question stated under an appropriate headline,
- covering letters that include general considerations and introductory words,
- conclusions or recommendations at the end of the letter and
- general statements without respect to specific questions.

Also for question 21, only the comments of the second half of the DP have been taken into consideration. This is consistent with the method used for analysing the other questions.²⁶⁴

The topics that are addressed the most are concerns or general statements on the proposed measurement model, including the CEV and the three building blocks, and the lack of disclosure requirements. A lot of commenters suggest the board to conduct field testing before the final standard is released. The interdependencies with other IASB projects and the regulations of “Solvency II” are also often mentioned. Regardless of whether commenters generally propose or oppose the proposals made in the DP, most of them mention in their covering letters that they appreciate the board’s effort to introduce a more detailed international standard for insurance contracts.

²⁶⁴ Details of the process of analysing the comment letters are given in chapter 3.1. Introduction.

4. Conclusion

4.1. The commenters' general view on the second half of the discussion paper

Overall it cannot be said that certain groups generally tend to always agree or disagree with the board's view. The views on most of the questions are heterogeneous throughout all of the groups. The differences in the arguments are mostly due to the nature of the commenters. Especially within the group of insurers this can be observed. There are insurers that operate only in a particular insurance sector. Depending on whether they belong to life or non-life insurance business their views apply to their kind of insurance products. But also the commenters of other groups are naturally biased by their profession or branch. Actuaries for example often mention the importance of the calculability of actuarial values under the proposed methods.

The DP examines some controversial issues. It is not surprising that the proposed measurement approach is paid high attention to, as the board introduced the new three building blocks model and the extensive use of the fair value measurement. Most commenters support using the CEV approach, although there are some discussions on the determination of the CEV. This may be the reason why especially the questions of chapter 5 of the DP "Measurement – other issues" have a high rate of responses. Beside measurement issues also presentation issues seem to be important to the commenters. Most commenters agree on the general principles but when going into detail their views do vary a lot. As mentioned above, this is partially due to their professional nature because different groups consider different items as important.

Most commenters that agree with the board's view on an issue state the same reasons the board already lists in the DP. But also some of the opposing arguments can be found in the DP as well because the board discusses most issues in detail. There are only very few commenters that present alternative approaches or arguments when not agreeing with the board's view. The board's view on the issue addressed in question 14 (measurement of an insurance liability) is rather rejected. The views on question 13, 16, 18 and 19 are heterogeneous. However, there is a

positive tendency towards supporting most of the board's proposals made in the second half of the DP.

4.2. The commenters' overall view on the discussion paper

The conclusion made on the first half of the DP is very similar to that on the second half.²⁶⁵ As the issue of measurement directly or indirectly affects most of the questions in the DP, it is obvious that the commenters especially refer to the proposed measurement model throughout all of the questions. There are hardly any differences in the opinions between the groups. The differences in the argumentations are often due to the profession of the commenter. Overall, the commenters appreciate the board's efforts and most of the board's proposals.

4.3. Link to the recent exposure draft

The exposure draft ED/2010/8 was developed after the board reviewed the responses to the DP.²⁶⁶ Beside this, the board gained input from the IASB working group and the participants of a field test in 2009.²⁶⁷ Following the responses to the DP, the board decided not to carry forward some of their proposals:²⁶⁸

- CEV: The original approach based on the notion of transfer is replaced by an approach that considers the cash flows arising when an insurer fulfils the contract.
- Service margin: No separate service margin will be required.
- Non-performance risk: Non-performance risk will not be included.

This basically corresponds with the results of the analyses made in this thesis and the thesis on the first part of the DP. These issues are controversial and a lot of commenters do not support the proposals on these made in the DP.

However, there are also a lot of proposals the commenters support and hence, they are carried forward to the exposure draft, e.g. recognising all income and expense

²⁶⁵ This argumentation is based on the conclusion made in *Höglinger (2010)*.

²⁶⁶ cf. Basis for Conclusions on Exposure Draft, par. BC1.

²⁶⁷ cf. ED/2010/8, par. IN5.

²⁶⁸ cf. IASB Homepage: Snapshot: Insurance Contracts, p. 9 – 11.

from insurance contracts in profit or loss or the inclusion of an explicit risk margin. Also, the board followed the commenters' desire to work together with the American FASB and developed joint regulations on many areas.²⁶⁹

All in all the exposure draft is largely based on the proposals of the DP. There are some issues and details that were changed due to the results of the field test, input from the comments on the DP and the convergence with the FASB.

²⁶⁹ cf. ED/2010/8, par. IN6.

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<http://www.ifrs.org/NR/rdonlyres/851FC88B-4053-4398-AFCD-DD8600EB5071/0/IC03111st02F.pdf>

[Access 12 July 2011]

IASB Homepage: IASB Work Plan:

<http://www.ifrs.org/NR/rdonlyres/199F6722-5A66-45BA-8C35-5F89170E2730/0/AP1CMACGPFWorkplanobnotes.pdf>

[Access 15 July 2011]

IASB Homepage: IFRS 4 Insurance Contracts FAQ (19/07/2004):

<http://www.ifrs.org/NR/rdonlyres/96455AD4-E933-4B1C-B9B3-AFC6C6B7035A/0/ifrs04faq.pdf>

[Access 12 July 2011]

IASB Homepage: Insurance Contracts:

<http://www.ifrs.org/Current+Projects/IASB+Projects/Insurance+Contracts/Insurance+Contracts.htm>

[Access 29 September 2011]

IASB Homepage: Project History (Insurance Contracts):

<http://www.ifrs.org/Current+Projects/IASB+Projects/Insurance+Contracts/Project+history.htm>

[Access 12 July 2011]

IASB Homepage: Snapshot: Insurance Contracts:

http://www.ifrs.org/NR/rdonlyres/13D225D4-2410-4269-9CF1-86D889B5A753/0/Insurance_Contracts_snapshot2.pdf

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Appendix A: List of commenters

CL	Submitter	Country
1	Manulife Financial	Canada
2	Towers, Perrin, Forster & Crosby Inc.	England
3	Assuris	Canada
4	QBE Insurance Group limited	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 Government 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 Investment Banking Association	England
26	Fairfax Financial Holding Limited	Canada
27	Fitch Rating	England
28	SAICA – Short-term Insurance Submission	South Africa
29	SAICA – Medical Schemes Submission	South Africa
30	Actuarial Society of South Africa	South Africa
31	SAICA – Long-term Insurance Submission	South Africa
32	Reinsurance Group of America, Inc.	USA
33	Basel Committee 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 Percy	England
43	Johan van Zyl Smit	na
44	AMP Limited	Australia
45	Santam	South Africa
46	ABSA LIFE LIMITED	South Africa
47	Norsk RegnskapsStiftelse - Norwegian Accounting Standard Board	Norway
48	Institute of Chartered Accountants in Ireland	Ireland
49	Chesnara	England
50	Bank of Ireland I	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 Guaranty 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	Chaucer 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 Actuarial 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 Tobacco	England
108	Aviva	England
109	Australian Accounting 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 Commission	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 & Sunalliance - 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

* *not received in time and not considered in the board's analysis*

Appendix B: Abstract (English)

The IASB is working on numerous projects to develop and improve international accounting standards. One of the most substantial projects in the last years has been the “Insurance Contracts” project. The work on this project started in 1997 and was later split into 2 phases. The aim of phase I was to publish an interim standard introducing first requirements specifically for insurance contracts. Phase II started in 2004 intending to improve the interim phase I standard IFRS 4 “Insurance Contracts”. In May 2007 the board achieved a milestone by publishing a discussion paper (DP) with preliminary views on insurance contracts. At the same time the board invited the public to comment on this paper until 16 November 2007. A total of 162 comment letters was sent by various commenters from all over the world. After reviewing these comments and completing further work on the insurance project, the board published an adjusted exposure draft in July 2010. Currently the IASB is reviewing the comment letters on this exposure draft and is working together with the FASB on developing a final standard replacing the existing IFRS 4 soon.

This thesis focuses on the contents of and comments on the second half of the DP. The analysis showed that there is no group that generally always agrees or always disagrees with the board’s view. The opinions within most of the groups are heterogeneous. Most differences in the arguments are due to the nature of the commenters. The views of insurers are often based on the kind of insurance business they are operating in.

The three building blocks and the CEV are the most controversial topics discussed in the comment letters. Questions relating to these topics have a high rate of responses. Most commenters support the CEV approach but there is criticism on the proposed determination of the CEV. Only a few commenters bring up arguments or alternative approaches that have not already been covered in the DP. There is a tendency towards supporting most of the board’s views on the second half of the DP.

The commenters’ view on the first half of the DP is similar to the view on the second half. All in all, the commenters value highly the board’s efforts on developing an own standard for insurance contracts and support the board’s proposals in principle.

Appendix C: Abstract (German)

Das IASB arbeitet an zahlreichen Projekten für die Entwicklung und Verbesserung von internationalen Rechnungslegungsstandards. Eines der umfangreichsten Projekte der letzten Jahre ist jenes zur Rechnungslegung von Versicherungsverträgen. Die Arbeit an diesem Projekt startete 1997 und wurde später in zwei Phasen geteilt. Das Ziel der Phase I war es, einen vorläufigen Standard mit ersten speziellen Regelungen für Versicherungsverträge zu veröffentlichen. Phase II startete 2004 mit dem Vorhaben, den vorläufigen IFRS 4 der Phase I zu verbessern. Im Mai 2007 gelang dem Board mit der Veröffentlichung des Diskussionspapiers "Preliminary Views on Insurance Contracts" ein großer Schritt. Zeitgleich damit forderte das Board die Öffentlichkeit auf, die Inhalte dieses Diskussionspapiers bis zum 16. November 2007 zu kommentieren. Insgesamt trafen 162 Kommentare aus aller Welt ein. Nachdem das Board diese Rückmeldungen ausgewertet und weitere Arbeiten rund um das Versicherungs-Projekt durchgeführt hatte, veröffentlichte es im Juli 2010 einen entsprechend veränderten Entwurf eines Rechnungslegungsstandards für Versicherungsverträge. Zurzeit sichtet das Board die Kommentare zu diesem Entwurf und arbeitet zusammen mit dem FASB an der Entwicklung eines finalen Standards, der den vorhandenen IFRS 4 bald ersetzen soll.

Diese Arbeit behandelt vorwiegend die Inhalte des Diskussionspapiers und die darauf bezogenen Kommentare. Die Analyse hat gezeigt, dass keine der Gruppen die Sichtweise des Boards durchwegs unterstützt oder durchwegs ablehnt. Die Meinungen innerhalb der meisten Gruppen sind heterogen. Die meisten Unterschiede der Argumente begründen sich durch das Naturell der Kommentatoren. Zum Beispiel sind die Sichtweisen von Versicherern oft auf die Art ihres Versicherungsgeschäfts bezogen.

Die Three Building Blocks und der CEV sind die strittigsten Themen in den Kommentaren. Fragen, die auf diese Themen Bezug nehmen, weisen eine hohe Rate an Rückmeldungen auf. Die meisten Kommentatoren unterstützen den CEV Ansatz, aber die beschriebene Festsetzung des CEV wird kritisiert. Nur wenige Kommentatoren führen Argumente oder Ansätze an, die noch nicht im

Diskussionspapier behandelt wurden. Generell wird dazu tendiert, die Sicht des Boards auf die zweite Hälfte des Diskussionspapiers zu unterstützen.

Die Sicht der Kommentatoren auf die erste Hälfte des Diskussionspapiers ähnelt der Sicht auf die zweite Hälfte. Alles in allem würdigen die Kommentatoren die Bemühungen des Boards einen eigenen Standard für Versicherungsverträge zu entwickeln und unterstützen prinzipiell die Vorschläge des Boards.

Appendix D: Vita (English)

Curriculum Vitae

Personal Details

Name Elfriede Ehmayer, Bakk.
Date of birth / Place of birth 9 June 1987 / Vienna
Nationality Austria

Education

2009-2011 Master Studies of Business Administration, University of Vienna
Specialisation: Controlling
Revision and Trust
Master Thesis: "The Commenters' Views on the Second Half of the Discussion Paper 'Insurance Contracts'"

2006-2009 Bachelor Studies of Business Administration, University of Vienna
Specialisation: Organization- and Human Resource Management
Financial Accounting
Business Law
Bachelor Thesis: "Online Kredite"
"BioFit – alternative Kraftstoffe, Befragung von Opinion Leader"
Award "Best of the Best" 2008/2009, category "bachelor studies in business administration", ranking position #3

2001-2006 Business School in Korneuburg
School leaving examination with "excellent success"

1997-2001 Grammar School in Vienna

1993-1999 Elementary School in Korneuburg

Appendix E: Vita (German)

Lebenslauf

Persönliche Daten

Name	Elfriede Ehmayer, Bakk.
Geburtsdatum / -ort	09. Juni 1987 / Wien
Staatsangehörigkeit	Österreich

Ausbildung

2009-2011	Magisterstudium der Betriebswirtschaft, Universität Wien
Spezialisierung:	Controlling Revision, Steuern und Treuhand
Magisterarbeit:	„The Commenters' Views on the Second Half of the Discussion Paper 'Insurance Contracts'”
2006-2009	Bakkalaureatsstudium der Betriebswirtschaft, Universität Wien
Spezialisierung:	Organisations- und Personalmanagement Rechnungslegung Wirtschaftsrecht
Bakkalaureatsarbeiten:	„Online Kredite“ „BioFit – alternative Kraftstoffe, Befragung von Opinion Leader“
	Prämierung „Best of the Best“ 2008/2009, Kategorie „bestes Bakkalaureatsstudium Betriebswirtschaft“, Rang 3
2001-2006	Handelsakademie in Korneuburg Matura mit „ausgezeichnetem Erfolg“
1997-2001	Bundesrealgymnasium in 1210 Wien
1993-1999	Volksschule in Korneuburg
