Federation of European Accountants
Fédération des Experts comptables Européens

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@ifrs.org

2 October 2013

Ref.: INS/AKI/ACH/SRO

Dear Mr Hoogervorst,

Re: FEE Comments on the IASB Exposure Draft Insurance Contracts

(1) FEE (the Federation of European Accountants) is pleased to comment on the IASB Exposure Draft Insurance Contracts (the "ED").

(2) As a founding organisation of EFRAG, we have also contributed to the EFRAG consultation process by submitting on 2 October 2013 the FEE comments on EFRAG's Draft Comment Letter issued on 5 August 2013.

(3) However, considering that the results of the EFRAG field testing will be provided after mid-October and that the final EFRAG comment letter will be available after the IASB deadline, we reserve the right to supplement this letter with another one subsequent to the IASB deadline for comments.

(4) FEE recognises the efforts the IASB has made in responding to stakeholders comments on the previous exposure drafts. In some areas, such as regarding the contractual service, margin we broadly support the ED proposals whereas in other areas, such as the mirroring approach we are concerned that the proposals may be overly complex. In a number of areas clarifications and improvements are necessary not only regarding the text of the proposals but also regarding the underlying principles in order to ensure consistent application.

Adjusting the Contractual Service Margin

(5) FEE supports the IASB proposal (paragraphs 30-31) that the contractual service margin should be adjusted for differences between the current and the previous estimates of the present value of future cash flows that relate to future coverage and other future services as such treatment would contribute to more useful and relevant information provided to the users of financial statements. We also believe the contractual service margin should be adjusted for changes to the risk adjustment that relate to future services.

(6) We are concerned about the clarity of the proposals regarding the changes in current estimates of cash flows (paragraph B68) and the presentation of subsequent changes in the contractual service margin (paragraph 30).

Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items

(7) We have serious concerns as to whether the mirroring approach as prescribed in par. 33 and 34 will sufficiently reduce accounting mismatches without adding undue complexity for entities in preparing financial statements and for users in understanding them.

(8) The scope of contracts that may qualify for mirroring may appear to be too narrow and there may be an arbitrary "bright line" between the treatment of this "mirroring" class of contracts and participating contracts with broadly similar features. This "bright line" will be further affected by the new category of embedded derivatives (closely related, but to be separated and with all changes presented in profit or loss) that is identified under the mirroring approach and might lead to new accounting mismatches.

(9) We would welcome an alternative that proposes a single, consistent measurement approach for all insurance contracts that promise benefits which depend on asset returns or the surplus of a company as a whole.

Interest expense in profit or loss

(10) We acknowledge that in proposing to present the effects of the changes in the discount rates in OCI the IASB has responded to certain preparers' as well as users' concerns about short term volatility being reflected in profit or loss. However, the mandatory use of OCI will create accounting mismatches where insurers' assets are not held at fair value through OCI. In our opinion, accounting mismatches may easily be reduced by introducing an option on a portfolio level to recognise all changes in the insurance liability measurement in profit or loss. We therefore remain supportive of a non-mandatory use of OCI and the introduction of a policy choice on a portfolio basis on whether to use profit or loss or OCI to reflect changes in the discount rate.

Effective date and transition

(11) Regarding effective date and transition, we agree with the proposed ED approach as it appropriately balances comparability with verifiability.

(12) As mentioned in our comments on the IASB ED Classification and Measurement: Limited amendments to IFRS 9[1],generally users prefer to see larger changes implemented to the same effective date, in order to get a stable basis that allows for comparisons over time but also to minimize operational risks and costs. However, from a practical point of view, it might be acceptable to end up with two different effective dates in the case that the insurance contracts project is to be finalised at a significantly later date, provided that early application is allowed and at least the outcome of the insurance project is clear in order to allow a proper categorization. If we end up with two different effective dates, as a minimum, reclassifications should

[1] For the FEE response see: http://www.fee.be/images/publications/banks/BAN_Hoogervorst_130322_IASB_ED_IFRS_9_Classification_and_Measurement.pdf

be allowed on the effective date of the later standard to avoid accounting mismatches.

Need for an international standard on insurance contract

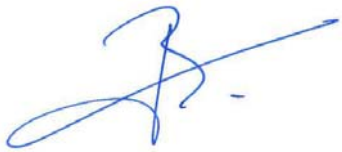
(13) We welcome the convergence efforts by both the IASB and the FASB to have a global comprehensive high quality standard for insurance contracts. However, considering the duration of the Insurance Contracts' project and the fact that there is currently no international standard on insurance contracts (as opposed to the US), we strongly encourage IASB to continue its deliberations towards the finalization of the standard.

Our comments on appendixes 1-5 of the EFRAG draft comment letter are contained in the appendixes 1-4 of this letter as we consider them relevant for the overall understanding of the FEE positions.

For further information on this letter, please contact Anastasia Chalkidou, Advisor at the FEE Secretariat on +32 2 285 40 82 or via email at anastasia.chalkidou@fee.be.

Yours sincerely,

André Kilesse
President



Olivier Boutellis-Taft
Chief Executive

APPENDIX 1

ADJUSTING THE CONTRACTUAL SERVICE MARGIN

IASB Question 1
Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if:

(a) differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services are added to, or deducted from, the contractual service margin, subject to the condition that the contractual service margin should not be negative; and

(b) differences between the current and previous estimates of the present value of future cash flows that do not relate to future coverage and other future services are recognised immediately in Profit or Loss?

Why or why not? If not, what would you recommend and why?

(14) Similarly to EFRAG, FEE supports the IASB proposal (paragraphs 30-31) that the contractual service margin should be adjusted for differences between the current and the previous estimates of the present value of future cash flows that relate to future coverage and other future services provided that the contractual service margin would not be negative. Such accounting treatment would better match the earnings with the provision of services due to the change in the calculated future profitability of contracts (e.g. by gaining new insights about future developments) and will enhance consistency with how the margin is determined at inception. Furthermore unlocking the contractual service margin will better align it with its definition a current estimate of unearned profits. Therefore, the suggested treatment would contribute to more useful and relevant information provided to the users of financial statements.

(15) We also refer to our response to the supplementary EFRAG question to constituents regarding suggested clarifications on the ED application guidance as far as the changes in estimates of cash flows (B68) are concerned.

If, similarly with the cash flows, the movement of the risk adjustment is split in the part related to the current period and the part related to future periods, specifically the disclosed effect on the contractual service margin provides more transparency than an undifferentiated "change of risk adjustment" combining both the released amount for the current period and the changes related to future periods.

(16) We don't find the arguments at paragraph BC37 for not unlocking the contractual service margin for changes in the risk adjustment relating to future services convincing. In particular:

- Whilst we agree that, as set out, in paragraph BC37(a), changes in the risk adjustment relating to expiry of coverage should be reported in profit and loss, we do not agree that, in all cases, this will represent the largest part of any change in the risk adjustment.

- In our view the arguments at paragraphs BC37(b) and (d) would apply equally for the expected value of cash flows, for which the ED proposes an unlocking.

- Contrary to paragraph 37(c) we do not know why it is considered that it might be difficult to split the change in risk adjustment of a period in the amount related to risk expiring in the current period and changes in estimate of risks to be born in future periods. The approach is the same as for the expected cash flows i.e. the risk adjustment is accumulated over future periods when the risk to be born in that period will be compensated. In both cases, the total change of the amount in the year consists of the amount for the current period, as determined at the end of the prior period and the review of future periods done at the end of the current period. Since these are two different steps with different timing, the total change is actually the sum of the two amounts determined separately.

(17) Losses shown as a consequence of increases of the risk adjustment, although the contractual service margin would be sufficient, could cause the wrong impression that premiums were not sufficient and one of the intentions of introducing risk adjustments would be thwarted. In addition if changes in the risk adjustment relating to future coverage are not taken to the contractual service margin they would be reported as revenue in the period they occur which would not appear to give useful information to users.

(18) Last but not least we would argue that it would be consistent with Revenue Recognition to adjust the contractual service margin for changes in risk adjustments relating to future services. In accordance with the measurement guidance of the Revenue Recognition Project, the changes in the views of the entity about cost in performing the contract do not affect the measurement of the performance obligation. The measurement of a performance obligation according to the Revenue Recognition Project[2] could be understood as the value of the performance obligation under IAS 37, i.e. a "risk-adjusted expected present value of cash flows", plus a "contractual service margin", calibrated to the transaction price initially. This understanding of the measurement under Revenue Recognition would cause the "contractual service margin" to off-set any movements of the "risk-adjusted expected present value of cash flows" as long as the latter does not exceed the carrying amount including "contractual service margin" (i.e. the "contractual service margin" is exhausted). Otherwise the IAS 37 amount is reported. We wonder why there is a different approach for the insurance contracts project, while a number of reasons would further require this project to include the discount rate and risk adjustment in subsequent measurement of the contractual service margin as adjustments carried forward in profit or loss may distort the revenue recognition pattern or make it more complicated.

Supplementary EFRAG question to constituents
Do you believe that the distinction between changes in estimates relating to future coverage or other future services and experience adjustments would involve a significant amount of judgment? If so, do you believe that the proposed guidance provides sufficient explanation on how entities make this distinction?

[2] See IASB Update July 2012 http://www.ifrs.org/Updates/IASB-Updates/Documents/IASBupdateJuly2012.pdf

(19) We are concerned about the clarity of paragraph B68 regarding the changes in current estimates of cash flows as it leaves room for different interpretations that might lead to inconsistent reporting. The lack of clarity of the proposed text complicates the judgment call required for the distinction between changes in estimates that relate to future services and those changes that are not related to future services. Therefore, before considering whether additional guidance is required, we would suggest that either paragraph B68 or the core text in the ED is amended to clarify the principles regarding this distinction. Furthermore, it should be clarified when changes in the value of an option or guarantee should be considered to relate to future coverage or other future services. In particular the treatment of the changes in current estimates of cash flows among different types of closely related guarantees and options (i.e. those that are not separated under paragraph 10(a)) deserves further consideration.

(20) We agree that the contractual service margin should not be negative and that any unfavourable movement that would otherwise create a negative contractual service margin should be recognised immediately in the profit and loss account. However, if subsequent measurements create favourable movements, we believe that those movements should be recognised in the profit and loss account up to the loss that has previously been recognised in profit or loss regardless of the frequency of reporting. We suggest that paragraph 30 is modified to allow this.

(21) We do not believe that our proposed amendment is any more complex that the current IASB ED proposal as insurers would need to track the relevant data anyway to assess when a contractual service margin is nil. It would also remove a potential difference in accounting treatment between quarterly and half-yearly reporters where the estimated net contract service value was only negative for a short period of time.

(22) The IASB may consider whether the contractual service margin is released only over the coverage period. For example, we believe that in certain cases (e.g. transport insurance, disability insurance etc.), the main services are provided after the formal coverage period (i.e. the period during which the entity provides coverage for insured events) as the actual damages become apparent.

CONTRACTS THAT REQUIRE THE ENTITY TO HOLD UNDERLYING ITEMS AND SPECIFY A LINK TO RETURNS ON THOSE UNDERLYING ITEMS

IASB Question 2

If a contract requires an entity to hold underlying items and specifies a link between the payments to the policyholder and the returns on those underlying items, do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if the entity:

(a) measures the fulfilment cash flows that are expected to vary directly with returns on underlying items by reference to the carrying amount of the underlying items?

(b) measures the fulfilment cash flows that are not expected to vary directly with returns on underlying items, for example, fixed payments specified by the contract, options embedded in the insurance contract that are not separated and guarantees of minimum payments that are embedded in the contract and that are not separated, in accordance with the other requirements of the [draft] Standard (i.e. using the expected value of the full range of possible outcomes to measure insurance contracts and taking into account risk and the time value of money)?

(c) recognises changes in the fulfilment cash flows as follows:

(i) changes in the fulfilment cash flows that are expected to vary directly with returns on the underlying items would be recognised in Profit or Loss or other comprehensive income on the same basis as the recognition of changes in the value of those underlying items;

(ii) changes in the fulfilment cash flows that are expected to vary indirectly with the returns on the underlying items would be recognised in Profit or Loss; and

(iii) changes in the fulfilment cash flows that are not expected to vary with the returns on the underlying items, including those that are expected to vary with other factors (for example, with mortality rates) and those that are fixed (for example, fixed death benefits), would be recognised in Profit or Loss and in other comprehensive income in accordance with the general requirements of the [draft] Standard?

Why or why not? If not, what would you recommend and why?

(23) We have serious concerns as to whether the mirroring approach as prescribed in par. 33 and 34 will sufficiently reduce accounting mismatches without adding undue complexity for entities in preparing financial statements and for users in understanding them. The scope of contracts that may qualify for mirroring may appear to be very narrow and there may be an arbitrary “bright line” between the treatment of this class of contracts and participating contracts with broadly similar features.

(24) We believe that the IASB proposal affects both measurement (where the underlying is measured at amortized cost) and presentation of the changes in that measurement. Consequently, the measurement concept of current fulfilment value has been abandoned for a group of contracts. We are not sure as to whether users will understand the mirroring of mixed measurements and, whether the advantages of this measurement exception outweigh the complexity mentioned above.

(25) The IASB mirroring proposal introduces apart from closely related and not-closely related embedded derivatives a third category, i.e. closely related embedded derivatives that should be identified as a separate bucket and whose value changes should all be recognised in profit or loss. This treatment is different from other closely related embedded derivatives that are often included in the probability-weighted cash-flows whose changes are, where appropriate recognised in profit or loss (e.g. experience), OCI (changes discount rate) or Contractual Service Margin (changes in estimates of cash flows related to future services). This may worsen the effect of the “bright lines” mentioned above and create new accounting mismatches.

We do not think that there should be different treatment between options and guarantees (that are closely related to the insurance contract) dependent on whether or not they are contained within contracts that are subject to mirroring. We comment in our response to Question 1 for the need to clarify when changes in the value of an option or guarantee should be considered to relate to future coverage or other future services.

Supplementary EFRAG questions to constituents – please provide your answers considering EFRAG's recommendation in our response to question 4 and in the context of the currently proposed limited amendments to IFRS 9 in respect of classification and measurement

Do you believe the alternative approach described in Appendix 5 will lead to financial statements that provide relevant information that faithfully represent the entity's financial position and performance for contracts with asset dependent cash flows? Why or why not? If not, what would you recommend and why? Please consider whether the alternative approach eliminates or reduces accounting mismatches while reporting consistently contracts with similar economic features (i.e. contracts with asset dependent cash flows). Do you support the alternative approach wholly or partly? Please explain, which parts you support and which you do not?

Do you believe that for contracts with asset dependent cash flows, the effect of changes in financial assumptions should be accounted for in the contractual service margin resulting in a fully prospective contractual service margin? If so, why and how this should be done?

Do you agree that interest expense should be recognised in Profit or Loss based on a yield as proposed in the alternative approach (please refer to paragraphs 21 – 25 of Appendix 5 for a description of the yield curve under the alternative approach)? Why or why not?

What should be the pattern of release of the contractual service margin for contracts with asset dependent cash flows?

Do you believe the alternative approach is operationally more or less complex than the IASB's 'mirroring approach'?

Do you believe that the alternative approach, or a variant thereof, would be conducive to understandable and useful information for investors and their advisors?

(26) Regarding the alternative approach proposed by the industry, we repeat our concerns expressed in our response to Question 2 regarding the actual benefits of a "mirroring" approach. Therefore, we would welcome an alternative that proposes a single, consistent measurement approach for all insurance contracts, where benefits depend on asset returns or the surplus of a company as a whole.

(27) According to the alternative approach, the contractual service margin should reflect the present value of unearned profits (including investment profits) and if there is an adjustment on this value it should be reflected in the contractual service margin. Firstly, we remark that in a situation where a contractual service margin represents by definition the present value of future profits is annually accreted for interest and recognised in profit or loss over the life time of the contract. Consequently, we do not understand that the alternative proposal does not alter the IASB's approach in this respect but uses an "updated discount rate).

(28) We are not sure to what sources of "future investment profits" the alternative approach specifically refers to. One source of future investment profits relates to fund-related asset management fees and in our understanding, the alternative approach is corroborated by paragraph B68e. Where other sources of future investment profits would be identified, it should be ensured that they are consistent with the measurement model according to the ED and relate to future estimates rather than experience-to-date.

(29) In particular, we believe the alternative approach should explicitly address whether the contractual service margin would be adjusted to reflect those changes in the returns on underlying items that the entity does not expect to pay to, or recover from, the policyholder. We refer to the IASB's discussion on this issue at paragraph BC38 - BC41.

(30) In order to determine the pattern of release of the contractual service margin for contracts with asset dependent cash flows, we consider necessary to analyse the nature of the relevant services (e.g. asset management, risk management etc.).

(31) Overall, we believe that the alternative approach should be tested further in order to consider the information provided being more useful and informative. Particularly paragraphs 21-25 and how they align with the measurement principles of the ED need to be explained in more detail. Specifically it should be tested that the interest rate used is aligned with the interest rate used for the calculation of the asset related cash flows.

(32) We are strongly concerned with the suggestion at paragraph 25 that "crediting asset returns to the policyholder, are explicit services under the insurance contract" as the crediting of asset returns would then affect changes in the recognition pattern of the contractual service margin.

PRESENTATION OF INSURANCE CONTRACT REVENUE AND EXPENSE

IASB Question 3
Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial performance if, for all insurance contracts, an entity presents, in Profit or Loss, insurance contract revenue and expenses, rather than information about the changes in the components of the insurance contracts?
Why or why not? If not, what would you recommend and why?

(33) We understand that the IASB's proposal for revenue and expense presentation would be consistent with the general revenue recognition principles and we acknowledge the EFRAG arguments for and against the IASB's proposals for revenue and expense presentation.

(34) However, as we highlighted in our response to IASB ED in 20103, users of financial statements should be consulted on whether the proposed presentation would be useful for them.

[3] For the FEE Comments on the 2010 IASB Exposure Draft Insurance Contracts see: http://www.fee.be/images/publications/insurance/Tweedie_101130_IASB_ED_Insurance_Contracts1122010342155.pdf

(35) In assessing the usefulness of such presentation it should also be considered whether the costs outweigh the benefits obtained from such additional information (i.e. cost/benefit analysis should be performed). In that respect the proposal should be considered not only focusing on the presentation of revenue, but also on the benefits of providing information on claims- and administration expenses.

Supplementary EFRAG question to constituents
Do you believe that the investment component amounts would be difficult and costly to compute because they are not distinct and are highly interrelated with the insurance component?

Do you believe that additional application guidance is necessary to determine these amounts on a portfolio level?

Do you believe that preparing and presenting revenue under the ED proposals would be difficult and costly?

(36) Although it depends on the amount and detail of information that the users will need, we do not expect that the investment component amounts would be difficult to compute in a non-arbitrary manner, as the nature of the cash flows of an insurance contract should usually be already known to the preparer.

(37) Furthermore, it should be noted that we are not concerned about the auditability, as long as the aforementioned information models and internal process have been set up by the preparers.

INTEREST EXPENSE IN PROFIT OR LOSS

Question 4
Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial performance if an entity is required to segregate the effects of the underwriting performance from the effects of the changes in the discount rates by:

(a) recognising, in Profit or Loss, the interest expense determined using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows; and

(b) recognising, in other comprehensive income, the difference between:

(i) the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date; and

(ii) the carrying amount of the insurance contract measured using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows?

Why or why not? If not, what would you recommend and why?

(38) We acknowledge that in proposing to segregate the effects of the changes in the discount rates in OCI the IASB has responded to certain preparers' as well as users' concerns about short term volatility being reflected in profit or loss. However, the mandatory use of OCI will create accounting mismatches where insurers' assets are not held at fair value through OCI. In our opinion, accounting mismatches may easily be reduced by an option to recognise all changes in the insurance liability measurement in profit or loss. This would be consistent with the existing options for financial instruments. Such option may be granted on a portfolio level, and it may be made available only once a new portfolio is created.

(39) We therefore remain supportive of a non-mandatory use of OCI and the introduction of a policy choice on a portfolio basis on whether to use profit or loss or not. We believe that the IASB proposal to mandate the treatment of the interest expense (through OCI) is not fit for purpose as it might still lead to accounting mismatches in cases where the underlying financial assets have different measurement basis under the existing standards (especially financial instruments at FVTPL).

Supplementary EFRAG questions to constituents
Under the IASB's proposals, the difference to be reported in OCI is determined by comparing the discount rate to measure the liabilities and, depending on the type of cash flows, the locked-in discount rate at inception of the insurance contract or an updated rate. Under IAS 19 *Employee Benefits*, the difference is determined by comparing the discount rate at the beginning of the reporting period and the rate at the end of the reporting period. Some, including IASB Board member Stephen Cooper, hold the view that only the latter difference (i.e. the effect of changes in discount rates in the period of the change) provides relevant information (as is described in paragraphs AV5 and AV6 of the Basis for Conclusions), and that, therefore, only this difference should be reported in OCI.

Do you support the approach in the ED or should the interest expense recognised in profit and loss be based on a current discount rate for all type of cash flows? If so, should the discount rate be the rate at the beginning of the period, as in IAS 19, or that at the closing date?

(40) We refer to our previous responses above.

Supplementary EFRAG questions to constituents
Do you believe the suggested approach described above will lead to financial statements that provide relevant information that faithfully represent the entity's financial position and performance for contracts? Please consider whether the suggested approach eliminates or reduces accounting mismatches in Profit or Loss and OCI.

Are you aware of any circumstances in which, from your point of view, measurement of both insurance liabilities and the related financial assets at FV-PL might be needed instead of, or combined with, measurement at FV-OCI? If so, please provide a description of the portfolios of insurance contracts concerned and how the asset-liability management strategy differs from other portfolios.

Do you believe that EFRAG should suggest how the assets related to insurance liabilities should be identified? If so, what would you recommend and why?

Do you believe that derivatives should also be accounted for using OCI? If so, how could objective evidence be gathered in respect of derivatives that only play a role in matching insurance liabilities? Should any other assets apart from those included in paragraph 105 be measured at FV-OCI? Please explain why. Do you agree that following EFRAG's approach, the IASB would need to develop an impairment model for debt instruments that do not meet the contractual cash flow characteristics assessment and investments in equities that would be measured at FV-OCI and potentially other assets? If so, what impairment model would you recommend and why? Do you see any problems in recycling realised gains and loss on investments related to contracts with asset-dependent cash flows (that are not under the scope of the IASB's measurement and presentation exception as discussed in Question 2)? If so, what solutions would you recommend? Please explain your answer. Where should changes in the time value of options and guarantees not separated from insurance liabilities be recognised? Please explain your answer.

(41) In its comments on EFRAG's Draft Comment Letter on IASB Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9 [4], , FEE suggested that the IASB should provide for an appropriate interaction between the accounting for financial assets pursuant to IFRS 9 and the accounting for insurance contract liabilities. Therefore, accounting mismatches will remain, where assets of an insurer do not qualify for Fair Value through OCI (e.g. derivatives used to hedge interest rate risks or instruments measured at amortized cost), unless solved through the hedge accounting proposals.

(42) We believe that the proposed approach by EFRAG is not necessary to ensure that the financial statements provide relevant information that faithfully represents the entity's financial position and performance for contracts.

(43) We consider that such approach encompasses a number of practical difficulties that cannot be solved in the short term regarding identification of assets in case of duration mismatches, impairment calculation, definition of scope etc. thus adding undue complexity instead of simplifying the accounting treatment for insurance contracts.

(44) Furthermore, as mentioned in our response to Question 4 above, IFRS 4 should also provide an option for insurance liabilities to present changes resulting from discount rates in profit or loss, when such option reduces accounting mismatches.

[4] For the FEE response to EFRAG's Draft Comment Letter see: http://www.fee.be/images/publications/banks/BAN_Flores_130320_IASB_ED_IFRS_9_Classification_and_Measurement.pdf

EFFECTIVE DATE AND TRANSITION

IASB Question 5
Do you agree that the proposed approach to transition appropriately balances comparability with verifiability?

Why or why not? If not, what do you suggest and why?

(45) We agree that the proposed ED approach to transition appropriately balances relevance and comparability with verifiability.

Supplementary EFRAG questions to constituents
Considering EFRAG's recommendation for entities where insurance forms a significant part of their activities (i.e. the effective date of IFRS 9 should be deferred until the effective date of the new insurance contracts standard), do you believe that:

(a) Those entities should always be required to apply the impairment proposals earlier than the other parts of IFRS 9; or

(b) Those entities should be allowed early implementation of the impairment proposals compared to the other parts of IFRS 9.

Do you believe the scope of the redesignations and reclassifications when the new insurance contracts standard is applied for the first time by entities for whom insurance forms a significant part of their activities, should be extended beyond IFRS 9 (e.g. investment properties)? If yes, please explain what items should be within that scope?

(46) As mentioned in our comments regarding the IASB ED Classification and Measurement: Limited amendments to IFRS 95, generally users prefer to see larger changes implemented to the same effective date, in order to get a stable basis that allows for comparisons over time. From an accounting systems' point of view it would be preferable not to have two distinct effective dates for IFRS 9 and IFRS 4 when revised. However, from a practical point of view, it might be acceptable to end up with two different effective dates in the case that the insurance contracts project is to be finalised at a significantly later date, provided that early application is allowed and at least the outcome of the insurance project is clear in order to allow a proper categorization. If we end up with two different effective dates, as a minimum, reclassifications should be allowed on the effective date of the later standard to avoid accounting mismatches.

(47) We believe that in line with the requirements of IFRS 9, reclassifications should be allowed if there is a change in an entity's business model. An extension beyond IFRS 9 requirements could be useful only for investment properties or unless IFRS 9 provides an option in case of same adoption date.

[5] For the FEE comment letter IASB ED Classification and Measurement: Limited amendments to IFRS 9 see: http://www.fee.be/images/publications/banks/BAN_Flores_130320_IASB_ED_IFRS_9_Classification_and_Measurement.pdf

THE LIKELY EFFECTS OF A STANDARD FOR INSURANCE CONTRACTS

IASB Question 6
Considering the proposed Standard as a whole, do you think that the costs of complying with the proposed requirements are justified by the benefits that the information will provide? How are those costs and benefits affected by the proposals in Questions 1–5?

How do the costs and benefits compare with any alternative approach that you propose and with the proposals in the 2010 Exposure Draft?

Please describe the likely effect of the proposed Standard as a whole on:

(a) the transparency in the financial statements of the effects of insurance contracts and the comparability between financial statements of different entities that issue insurance contracts; and

(b) the compliance costs for preparers and the costs for users of financial statements to understand the information produced, both on initial application and on an ongoing basis.

(48) We believe that the ED proposals could form the basis of an improvement in comparison with the existing requirements that could result in more useful and relevant information for the users. The proposals contribute to the improvement of transparency in the financial statements of the effects of insurance contracts and the comparability between financial statements of different entities. However, in order to achieve this aim we believe that the mirroring proposals require simplification and that the OCI proposals require amending so that they do not lead to the creation of accounting mismatches.

(49) Regarding the compliance costs for preparers and the costs for users of financial statements, we consider that there is no appropriate evidence to provide input from FEE. Depending on the specificities and the regulatory requirements of each area, there might be significant set up costs due to the new requirements prescribed. However, such additional costs might be outweighed by the improvement through comparability of the available information.

Supplementary EFRAG question to constituents
Do you believe that the IASB's response to the comments on the 2010 Exposure Draft balance the costs of applying these proposals with the benefits of the resulting information provided?

(50) As outlined in our response to Question 2, we remain concerned on whether the "mirroring" approach contributes to the simplification and reduction of resource required both for the preparers and the users. We doubt that the value added from the resulting information could balance the additional costs (e.g. increased audit fees) and volume of work required to implement the ED proposals.

CLARITY OF DRAFTING

IASB Question 7
Do you agree that the proposals are drafted clearly and reflect the decisions made by the IASB?

If not, please describe any proposal that is not clear. How would you clarify it?

Supplementary EFRAG questions to constituents
Do you agree with the areas/paragraphs identified by EFRAG in Appendix 4?

Have you identified any other areas/paragraphs that need clarification? Please explain.

(51) Please refer to the table in Appendix 4 for our comments.

APPENDIX 2

Additional EFRAG comments

DISCLOSURE OF CONFIDENCE LEVEL (paragraphs 7-8)

(52) As mentioned in response to the 2010 IASB ED Insurance Contracts, we have some practical concerns in requiring disclosure of the confidence level to which the risk adjustment corresponds, regardless of the method for measuring the risk adjustment. Similarly to EFRAG, our principal concern is that requiring this could represent a burden for preparers with no clear benefit for users. Therefore, we do not agree with such disclosure. The disclosures required under paragraph 83 (a) and (b)(i) should suffice to give relevant information about the degree of risk adverseness applied in determining the risk adjustment.

INTEREST EXPENSE IN PROFIT OR LOSS FOR THE LIABILITY FOR THE INCURRED CLAIMS FOR CONTRACTS UNDER THE PREMIUM ALLOCATION APPROACH (paragraph 10)

(53) We do not agree with the EFRAG recommendation as it is not clearly identified how such proposal could be applied in the IBNR portfolio.

GAINS AND LOSSES ON BUYING REINSURANCE (paragraphs 15-16)

Supplementary EFRAG question to constituents
Do you agree with EFRAG's conclusion that day one gains and losses on buying reinsurance should be recognised over the coverage period? If not, please explain how those should be accounted for and what the supporting arguments for a different accounting treatment are.

(54) Before concluding on the period chosen for the recognition of the day one gains and losses on buying reinsurance, a number of issues should be addressed such as consistency of the alternative approaches with other standards, but as well the relationship between the reinsurance coverage and the underlying contract etc. When considering this issue further we believe that one should take into account the following aspects:

- Para 41 (a) the ED distinguishes between coverage for aggregate losses and coverage for individual losses already. This dividing line could as well be applied for the treatment of gains on buying reinsurance.
- A reinsurance contract is not a single instrument but would not be held or issued without the underlying business which suggests an approach that considers both underlying and seeded reinsurance in conjunction.
- For the purpose of calibration the ED considers reinsurance commission as a reduction of reinsurance premium to determine the price for buying reinsurance. This is a reflection of what is happening in practice. i.e. there is no connection between the reinsurance commission and acquisition or administration cost of the cedent, but a mean to share the profit of the underlying business between the reinsurer and cedent.

- The gain on buying reinsurance will not exceed the (deferred) gain of the underlying gross business; hence, on a net basis there would be no gain at inception.
- When buying reinsurance on an individual gross basis the cedent effectively locks in a part of the unearned profit of the underlying business; it may therefore be questioned whether this justifies a deferral of that share of profits.
- For the presentation of financial position users may expect that the reinsurance asset represents the reinsurers share in the underlying liabilities according to the contractual terms.

DISCLOSURES OF MINIMUM CAPITAL REQUIREMENTS (paragraphs 21-22)

Supplementary EFRAG question to constituents
Do you agree with EFRAG's recommendation that the requirement to disclose information about the effects of each regulatory framework in which entities operate should be deleted in the final standard? Please explain your answer.

(55) We agree with EFRAG's recommendation to delete in the final standard the requirement to disclose information regarding the regulatory framework in which entities operate. Regulatory capital is not part of the financial statements of an entity, therefore if such disclosure is necessary it might be more appropriate to amend IAS 1.

Appendix 3

Additional FEE comments

(56) As the Insurance Contracts project is part of the convergence project with FASB, we would like to highlight the following two areas where a more converged approach with FASB would enhance consistency and comparability:

a. The FASB proposals include specific requirements and exemptions for segregated fund or separate account arrangements and the related segregated portfolios of assets (i.e. unit-linked contracts). Similar requirements were included in the 2010 IASB ED but have been removed from the revised proposals without providing the arguments for such deletion. We encourage the IASB to consider that exemptions and requirements, for the reasons stated by FASB and in order to avoid divergences that may rise from different interpretation of IFRS 10.

b. Under the IASB proposals, if a contract issued by a mutual entity provides policyholders the right to participate in the whole of any surplus of the issuing entity, then there would be no equity remaining and no profit reported in any accounting period. Under the FASB's proposals, a mutual entity would treat as equity any amount of surplus that the entity does not have the obligation or intention to pay out in fulfilling the insurance contract obligations. We believe that the measurement should not contradict the basis of the expectation about what is expected to be paid in the foreseeable future to policyholders under the assumption of a going concern.

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
Page 10, above Q5	The IASB states that estimates of the contractual service margin may not be verifiable. We believe the text could be improved if the IASB explain the supporting reasons.	We are not sure why EFRAG suggests this improvement in the text as the invitation to comment will not be part of the final standard.
Paragraph 4	This paragraph specifies that all references in the standard apply to a reinsurance contract held and an investment contract with a discretionary participation feature. EFRAG wonders why this paragraph is needed if both types of contracts are already mentioned in paragraph 3.	We understand that paragraph 4 facilitates the later wording paragraph 3 does not say, that the term “insurance contracts ... that it issues” covers reinsurance contracts held or investment contracts.
Footnote paragraph 7	EFRAG recommends the IASB to clarify whether any further changes in the light of the finalisation of the revenue recognition project would be part of the normal due process of the IASB.	Agreed
Paragraph 13	It should be clarified that the beginning of the coverage period commences when any pre-coverage cash flows are incurred such as directly attributable acquisition costs, so that a prepayment asset does not need to be established for these cash outflows before coverage begins.	We believe that paragraph 13 in connection with 54 are clear and can require the recognition of an asset is required before the coverage period begins. We wonder whether EFAG’s intention is, that any acquisition costs spent before the coverage period commences shall fully reduce the result of the period when occurred.
Paragraph 23(b)(i)		It should be clarified whether the term portfolio in this paragraph is intended to take its defined meaning or is intended to refer more generally to an ability to reprice at a level less granular than the individual contract.

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
Paragraph 27	It does not specifically mention the remeasurement of the risk adjustment. EFRAG understand that this margin is remeasured by reference to paragraph 29(a). The treatment of the difference is only dealt with in paragraph 60(b). This link could be drafted more explicitly and clearly.	We are not sure what EFRAG suggests in addition to the current wording.
Paragraphs 29-34	These paragraphs deal with subsequent measurement under the general approach and for contracts that require the entity to hold underlying items and specify a link to returns on those underlying items. The subsequent treatment of options and guarantees under both approaches could be clarified in the drafting under both approaches.	Agreed
Paragraph 30		It should be clarified that the reference to the 'difference between the current and previous estimates of the present values of future cash flows' relates to the difference calculated using the locked in discount rate. The reference to 'the remaining amount of the contractual service margin' is misleading as it could be misread as implying that the contractual service margin cannot exceed the contractual service margin originally booked.
Paragraph 34	This paragraph deals with the split of cash flows and the wording would be clearer if it explicitly mentions that this has to be done.	Agreed

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
Paragraph 38		This paragraph deals with the premium allocation approach and the draft text implies the accumulation and release of the liability for the remaining coverage. Paragraph 38a includes acquisition costs and pre-coverage cash flows in the initial liability for remaining coverage. However if 38b is applied, then there will be a residual of pre-coverage cash flows and acquisition costs as these amounts are not subsequently removed.
Paragraphs 43-46		The treatment of the contracts purchased after their coverage period with respect to contractual service margin and eligibility to use the simplified approach should be clarified in the draft text.
Paragraph 47(c)		The references to 'asset management or other services under the contract' and 'asset management services' should be made consistent.
Paragraph 52		We are unsure why this paragraph specifies a requirement in respect of 'an issuer … of a reinsurance contract'. In all other cases the accounting by issuers of reinsurance contracts does not differ from the accounting by issuers of direct insurance contracts.

Reference	EFRAG clarification	FEE comments
Paragraph 73		We suggest clarifying that the reconciliations have to be provided for 'insurance contracts issued' and 'reinsurance contracts held' to make clear that reconciliations do not have to be provided separately for insurance and reinsurance contracts issued (which could be inferred from the text as drafted).
Paragraphs 78b&c		Incomplete roll forward disclosures should be reconsidered to depict the the changes compared to the 2010 ED; the amounts recognised in OCI in accordance with par 64 should also be more explicitly considered in paragraph 78.
Paragraph 82	As explained in the Basis for Conclusions, the IASB is the view that it is not possible to identify the assets backing insurance liabilities. EFRAG wonders whether such view is consistent with the required disclosure about investment returns on the related assets that an entity holds.	We wonder whether EFRAG questions the relevance of such information. We believe that such information may have even more relevance than the comparison on a market rate-basis.
Paragraphs 84 and 90		It should be clarified if the disclosures required by these paragraphs should be given gross or net or reinsurance (or both).

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
Appendix A	This appendix defines the 'contractual service margin' as unearned profit. EFRAG notes that such description would be clearer to understand if 'unearned profit' is better described.	Whereas we understand that some wished to have more guidance on how to release the contractual service margin, we wonder whether any such definition does fit with all the variety of contracts in place.
Paragraph B32	This paragraph of the application guidance deals with investment components that cannot be split at inception because they are highly interrelated with the insurance component. If the idea is that the investment component is not known in advance, but known once the transaction has happened (i.e. at the reporting date) then the text should clearly explain this fact.	EFRAG's comment is not clear.
Paragraph B61	This paragraph explicitly prohibits the entity to take into consideration future events, such as a change in legislation. This is not consistent with the requirements in IAS 12 Income Taxes, paragraphs 46 – 47, which take into consideration legislation that is 'enacted or substantially enacted'. EFRAG suggests this should be amended to make it consistent with IAS 12.	
Paragraph B66(k)		We believe the reference to 'existing contracts' in this paragraph should be replaced with 'existing or previously existing contracts' to make clear that payments to future policyholder arising from contracts that have now expired do form part of the fulfillment cash flows).

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
Paragraphs B70(a) and B74(a)		Paragraph B70(a) indicates that when applying the top down approach entities need not eliminate remaining differences in illiquidity. However, the example at paragraph B74(a) illustrates the elimination of a market premium for illiquidity in the top down approach. This apparent inconsistency should be resolved.
Paragraph B87	This paragraph of the application guidance could be clearer if the IASB mentions that the entity must also hold the assets.	We believe that is clear from the heading before paragraph 33.
Paragraph C3	We recommend moving 'derecognise' from first sentence to paragraph C3(a).	Agreed
BC26	The text gives the impression that the contractual service margin relates to asset management and other services only, not to the profit margin on insurance coverage.	Agreed. The contractual service margin may include amounts in respect of the bearing of risk (e.g. in respect of a contract whose only service is the bearing of risk). BC26 should be amended to make this clear.
BC32	If contracts become onerous, there is a loss recognised in the income statement. The IASB should clarify how the subsequent recovery would be reported. There could be first a reversal of the previous loss in the income statement, or the full amount could be adjusted in the contractual service margin.	Agreed, examples from other areas (e.g. revenue recognition) could be used; only if the reversal is booked first in profit or loss, the result of an annual period would be the same, regardless whether interim statements are prepared.

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
BC127(b)	This paragraph explains that there would be an inconsistent presentation of changes in the value of options and guarantees embedded in insurance contracts depending on whether the options and guarantees are embedded in a contract that requires the entity to hold underlying items and specifies a link to returns on those underlying items. This paragraph should better articulate the differences on the treatment of options and guarantees under the ED.	Agreed; the BC should as ell describe the reason for the inconsistency, if that is not eliminated in the final standard.
BCA69	The IASB should clarify whether the impact of discounting is disclosed separately.	We wonder whether EFRAG with this statement asks for more disclosure on interest rates in addition to paragraph 60h and 83 on discount rates
BCA105 to 109	BCA105 mentions providing service, BCA109 mentions coverage and services. We recommend the IASB to address the drafting inconsistencies.	
BCA134		BCA 134 states that 'for reinsurance contracts held in the pre-coverage period, a cedant should recognise a reinsurance asset at the expected present value of any expected recoveries related to underlying contracts for which it has recognised an onerous contract liability.' It is not clear whether or how this is reflected in the main body of the standard.

Appendix 4 – FEE comments on drafting clarifications

Reference	EFRAG clarification	FEE comments
EA8	The IASB should clarify whether the investment component is also excluded in the premium allocation approach. There is no exception mentioned in the main text of the ED.	We understand that the ED proposes in a way that investment components must be eliminated from revenue regardless whether the BBA or PAA apply. EFRAG should only ask for a clarification in wording if that was not intended, which is obviously not the case.