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30 October 2003

Dear Peter

ED 5 'Insurance Contracts'

I am writing to set out the comments of the UK Accounting Standards Board (ASB) on ED 5 'Insurance Contracts'. We believe this requires significant improvement. Our detailed comments responding to the specific questions raised are set out in the enclosed note.

The effect of the Phase I proposals

If implemented in its current form, the material in ED 5 ('the Phase I proposals') will lead to a largely unregulated open-ended period in insurance accounting worldwide while Phase II is developed. Despite the 'sunset' clause in ED5, we understand from members of the IASB that a Phase II standard may not be operational until the end of the decade.

Meanwhile, the IASB is proposing that almost any existing accounting policy for insurance contracts will be acceptable as part of IFRS. This is the effect of ED 5 exempting existing accounting policies from the 'framework criteria' set out in IAS 8 'Accounting Policies'. We regard this as regrettable and see no reason why the insurance sector should not, like other areas of the economy, be required to produce financial statements that are understandable, relevant and reliable.

Proposals for limiting existing accounting policies

We understand why some of the proposals in Phase I need to be practical rather than conceptual. However, we consider that the framework criteria should be retained. In addition, we recommend the application to existing accounting policies of the restrictions that are proposed for changes to accounting policies. These restrictions (set out in paragraphs 14-16 of ED 5) would then act as filters to distinguish acceptable existing accounting policies from the unacceptable. We also consider that the standard from ED 5 should refer to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IAS 27 'Consolidated and Separate Financial Statements' as explained below.

We comment below on measures which we consider you should introduce:

- to constrain early profit taking;
- to remove excessive prudence in measuring liabilities;
- to guard against understatement of liabilities; and
- to promote the use of consistent accounting policies (or, at least, to ensure transparency where this is not achieved).

Our concerns focus first on early profit-taking and thus on the paragraph 16 conditions (c) on future investment margins and (d) on future investment management fees. We understand that you are reluctant to impose restraints in this area because of systems implications. In the UK, however, the basis on which individual financial statements of insurance companies must at present be prepared does not include either future investment margins or future fees. To the extent that these effects are included in the consolidated accounts of conglomerates (using embedded value), they are taken up by consolidation adjustment. Our recommendation, therefore, to limit profit-taking at this stage of the development of your thinking on insurance accounting does not seem to pose significant systems problems for UK entities; we are moreover not aware of any continental European GAAP where there is profit-taking this way. European Member States are, of course, able to defer until 2007 the application of international accounting standards to companies that already use US GAAP as the basis of their statutory accounts.

Conditions (a) and (b) of paragraph 16 of the ED constrain the overstatement of liabilities by requiring discounting and disallowing excessive prudence for those who change their accounting policies. Because this issue is so fundamental, we believe that it needs to be tackled for everyone. Surely, this could be achieved by the use of carefully constructed estimates, based on up-to-date and consistent assumptions? It should not necessitate at this interim stage a complete overhaul of the book-keeping for individual insurance contracts. The result would, in our view, be better than the precise but largely irrelevant information that is often the basis for reporting at present. If such estimates are acceptable, we see no reason in principle why conditions (a) and (b) should not also be implemented in such a way as to constrain "existing" policies.

The dangers of understating liabilities are equally important. IAS 37 already sets out, at a general level, principles of best estimate measurement in conditions of uncertainty.

Insurance accounting in Phase I would be improved if the standard acknowledged the principle of best estimate for measuring liabilities, referring to IAS 37 for guidance and asking insurance companies to make their best endeavours to measure the effects of guarantees and options in insurance contracts. Our recent discussions with members of the banking and insurance communities in the UK suggest this would be feasible.

We also draw your attention to paragraph 16(e) whose specific inclusion appears to permit the *continued* use by insurers of non-uniform accounting policies for the insurance liabilities (and related deferred acquisition costs, if any) of subsidiaries. This contrasts with the absolute prohibition of non-uniform accounting policies which is about to be introduced to IAS 27 'Consolidated and Separate Financial Statements'.

If this relaxation for insurance contracts is thought to be necessary, it should at least be accompanied by a formal disclosure requirement along the lines of the (about to be deleted) words of paragraph 21 of IAS 27 set out below.

> "If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied".

Possible mismatch between assets and liabilities

One further controversial effect of ED 5 is that financial assets (including insurance assets) are likely to be carried at fair values under IAS 39 while insurance liabilities on existing policies may be on a regulatory basis. The ASB supports the use of fair values for financial assets in IAS 39, even if the insurance liabilities are carried on a regulatory basis. We therefore support the IASB proposals. Some argue that the mismatch resulting from ED 5 is unacceptable and propose that assets held to back insurance contracts should be measured at amortised cost in Phase I. We do not agree with that suggestion. We observe, moreover, that, if our recommendation above were adopted by requiring best estimate provisions, discounted at current rates, the mismatch problem would be significantly reduced.

Disclosure of fair values

ED 5 also proposes to require disclosure of the fair value of insurance assets and insurance liabilities as an interim measure. We regard this as a reasonable interim measure which will encourage the industry to develop its fair value measurement methodology. Fair value information (supported by disclosure of underlying methods and assumptions) is important to users of financial statements. 'Embedded value' and 'fair value' are, of course, not the same.

The IASB's future work

Looking forward to future work on insurance accounting, the ASB continues to support the tentative decision of the IASB to move to a consistent fair value basis. In view of the wide diversity of present international practice on insurance accounting, there is an urgent need for the IASB to continue its search for a principled, comprehensive insurance model through Phase II.

The ASB has issued the IASB's Phase I proposals as a consultation document in the UK and the Republic of Ireland. Any comments received will be forwarded to the IASB.

If you have any questions concerning this letter, or would like further information on any of the comments made, please do not hesitate to contact either myself (020 7611 9702), Allan Cook (020 7611 9703) or Janie Crichton (020 7611 9714).

Yours sincerely

Mary Keegan
Chairman

The ASB's comments on ED 5 'Insurance Contracts'

<u>Question 1 – Scope</u>

(a) *The Exposure Draft proposes that the IFRS would apply to insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. The IFRS would not apply to accounting by policyholders (paragraphs 2-4 of the draft IFRS and paragraphs BC40-BC51 of the Basis for Conclusions).*

The Exposure Draft proposes that the IFRS would not apply to other assets and liabilities of an entity that issues insurance contracts. In particular, it would not apply to:

(i) assets held to back insurance contracts (paragraphs BC9 and BC109-BC114). These assets are covered by existing IFRSs, for example, IAS 39 Financial Instruments: Recognition and Measurement and IAS 40 Investment Property.

(ii) financial instruments that are not insurance contracts but are issued by an entity that also issues insurance contracts (paragraphs BC115-BC117).

Is this scope appropriate? If not, what changes would you suggest, and why?

(b) *The Exposure Draft proposes that weather derivatives should be brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract (paragraph C3 of Appendix C of the draft IFRS). Would this be appropriate? If not, why not?*

<u>ASB comments</u>

(a) To encourage consistency in accounting across different entities, we believe that the IASB is correct in proposing to address its proposals to insurance contracts rather than insurance entities. We agree that accounting for financial assets and other financial instruments should be consistent, whether or not they are held to back insurance policies.

We are aware that some respondents assert that problems will arise from proposals which permit the continuing use of regulatory bases for the insurance liability but generally require under IAS 39 that financial assets held to back the insurance policies are included at fair values. In the UK and Ireland these assets are already included at fair values (except for redeemable fixed interest securities intended to be held on an ongoing basis in the activities of the insurance undertaking) while a modified regulatory basis is used for the liabilities. The Phase I proposals will not be a major change for companies in these countries. We support the carrying of financial assets at fair values. We would not support a suggestion that assets held to back insurance contracts should be measured at amortised cost

in Phase I because we believe that it is useful for assets to be reported at fair value even if the liabilities are not yet stated on that basis.

(b) We believe it is appropriate that weather derivatives are brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract.

Question 2 – Definition of an Insurance Contract

The draft IFRS defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary' (Appendices A and B of the draft IFRS, paragraphs BC10-BC39 of the Basis for Conclusions and IG Example 1 in the draft Implementation Guidance).

Is this definition, with the related guidance in Appendix B of the draft IFRS and IG Example 1, appropriate? If not, what changes would you suggest, and why?

ASB comments

We support the definition of an insurance contract set out in ED 5 with the related guidance in Appendix B.

Question 3 – Embedded derivatives

(a) IAS 39 Financial Instruments: Recognition and Measurement requires an entity to separate some embedded derivatives from their host contract, measure them at fair value and include changes in their fair value in profit or loss. This requirement would continue to apply to a derivative embedded in an insurance contract, unless the embedded derivative:

(i) meets the definition of an insurance contract within the scope of the draft IFRS; or

(ii) is an option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate).

However, an insurer would still be required to separate, and measure at fair value:

(i) a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in an equity or commodity price or index; and

(ii) an option to surrender a financial instrument that is not an insurance contract.

(paragraphs 5 and 6 of the draft IFRS, paragraphs BC37 and BC118-BC123 of the Basis for Conclusions and IG Example 2 in the draft Implementation Guidance)

Are the proposed exemptions from the requirements in IAS 39 for some embedded derivatives appropriate? If not, what changes should be made, and why?

(b) Among the embedded derivatives excluded by this approach from the scope of IAS 39 are items that transfer significant insurance risk but that many regard as predominantly financial (such as the guaranteed life-contingent annuity options and guaranteed minimum death benefits described in paragraph BC123 of the Basis for Conclusions). Is it appropriate to exempt these embedded derivatives from fair value measurement in phase I of this project? If not, why not? How would you define the embedded derivatives that should be subject to fair value measurement in phase I?

(c) The draft IFRS proposes specific disclosures about the embedded derivatives described in question 3(b) (paragraph 29(e) of the draft IFRS and paragraphs IG54-IG58 of the draft Implementation Guidance). Are these proposed disclosures adequate? If not, what changes would you suggest, and why?

(d) Should any other embedded derivatives be exempted from the requirements in IAS 39? If so, which ones and why?

ASB comments

(a) and (b)
In principle, we support the view that all embedded derivatives should be reflected at fair value and note that this is the overall intention under the Phase II proposals. However, in view of the implementation issues companies may face, we support the Board's decision that embedded derivatives meeting the definition of insurance contracts need not be separated out under Phase I.

(c) Yes.

(d) No.

Question 4 – Temporary exclusion from criteria in IAS 8

(a) Paragraphs 5 and 6 of [the May 2002 Exposure Draft of improvements to] IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specify criteria for an entity to use in developing an accounting policy for an item if no IFRS applies specifically to that item. However, for accounting periods beginning before 1 January 2007, the proposals in the draft IFRS on insurance contracts would exempt an insurer from applying those criteria to most aspects of its existing accounting policies for:

(i) insurance contracts (including reinsurance contracts) that it issues; and

(ii) reinsurance contracts that it holds.

(paragraph 9 of the draft IFRS and paragraphs BC52-BC58 of the Basis for Conclusions).

Is it appropriate to grant this exemption from the criteria in paragraphs 5 and 6 of [draft] IAS 8? If not, what changes would you suggest and why?

(b) Despite the temporary exemption from the criteria in [draft] IAS 8, the proposals in paragraphs 10-13 of the draft IFRS would:

(i) eliminate catastrophe and equalisation provisions.

(ii) require a loss recognition test if no such test exists under an insurer's existing accounting policies.

(iii) require an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to report insurance liabilities without offsetting them against related reinsurance assets (paragraphs 10-13 of the draft IFRS and paragraphs BC58-BC75 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you propose, and why?

ASB comments

(a) As explained in our covering letter, we have considerable concerns about the exemption proposals which, if implemented, will result in almost no restriction on what policies will be accepted as part of IFRS if they relate to insurance contracts and count as an existing accounting policy. The ASB believes that the effect will be to permit policies of profit recognition that are widely inconsistent among different insurers.

To meet these concerns, we propose that the IASB should use the restrictions proposed in ED 5 for changes in accounting policies as filters to distinguish acceptable existing accounting policies from unacceptable ones. ED 5 proposes that changes to accounting policies for insurance contracts are only acceptable if they make the financial statements 'more understandable, relevant to the decision-making needs of users, reliable and comparable, judged by the criteria in [draft] IAS 8'. Furthermore, an insurer will not be able to justify a new accounting policy that involves any of the following items:

(a) Measuring insurance liabilities on an undiscounted basis;

(b) Measuring insurance liabilities with excessive prudence;

(c) **Reflecting future investment margins either by using a discount rate for the liability that includes estimated investment returns or by including an allowance for investment returns in the measurement of the liability;**

(d) **Using measurements that implicitly measure contractual rights to future investment management fees at an amount that exceeds their fair value;**

(e) **Using non-uniform accounting policies for subsidiaries.**

We consider that, to be acceptable, existing accounting policies should equally meet the requirements proposed in ED 5 for changes in accounting policy; that is they should be 'understandable, relevant to the decision-making needs of users, reliable and comparable' as required by IAS 8 and also meet the five criteria listed above, as discussed below.

Conditions (a) and (b) above constrain the overstatement of liabilities by requiring discounting and disallowing excessive prudence. Because this issue is so fundamental, we believe it needs to be tackled, despite the accusations that reform in this area would create insuperable systems problems. It would be necessary to avoid generating at this interim stage a need for the complete overhaul of the book-keeping for individual insurance contracts. In our view this could be achieved by the use of carefully constructed estimates, based on up-to-date and consistent assumptions; the result would be better than the precise but irrelevant information that is often reported at present.

Conditions (c) and (d) above focus principally on early profit-taking. In the UK, the individual financial statements of insurance companies must at present be prepared on a regulatory basis as required by the European Insurance Accounting Directive. That basis does not include either future investment margin or future fees and, therefore, passes conditions (c) and (d). To the extent that future investment margins and future management fees are included in the consolidated accounts of conglomerates (using the embedded value basis), they are taken up by consolidation adjustment. Our recommendation, therefore, to limit profit-taking at this stage of the development of your thinking on insurance accounting does not seem to pose significant systems problems for UK entities; we are moreover not aware of any continental European GAAP where there is

profit-taking this way. European member states are, of course, able to defer until 2007 the application of international accounting standards to companies that already use US GAAP as the basis for their statutory accounts.

Paragraph 16(e) permitting the continued use by insurers of non-uniform accounting policies for the insurance liabilities (and related deferred acquisition costs, if any) of subsidiaries contrasts with the absolute prohibition of non-uniform accounting policies which is about to be introduced to IAS 27 'Consolidated and Separate Financial Statements'.

If this relaxation for insurance contracts is thought to be necessary, it should at least be accompanied by a formal disclosure requirement along the lines of the (about to be deleted) words of paragraph 21 of IAS 27 set out below.

'If it is not practicable to use uniform accounting polices in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which different accounting policies have been applied.' (paragraph 21 of IAS 27 (revised 2000))

What about the dangers of understating liabilities? IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' already sets out, at a general level, principles of best estimate measurement in conditions of uncertainty. Insurance accounting in Phase I would be improved if the standard at least acknowledged the ideal of best estimate for measuring liabilities, referring to IAS 37 for guidance and asking insurance companies to make their best endeavours to measure the effects of guarantees and options in insurance contracts (other than those included at fair value under IAS 39).

(b) In general we support the proposals in paragraphs 10-13 of the draft to eliminate catastrophe and equalisation provisions, to require a loss recognition test and to limit reinsurance offset. However, we have some concerns about the consistency or effectiveness of the loss recognition test where the only requirement is that current estimates of future cash flows should be used. As ED 5 notes, this does not specify which cash flows should be included, whether or how the cash flows should be discounted, or whether or how the cash flows or discount rate should be adjusted for risk and uncertainty. Clearly the detail of these issues awaits final decisions in Phase II but IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

already gives some guidance on measuring liabilities in situations of uncertainty, which could perhaps be drawn on to give more guidance, in general at least, on what constitutes an acceptable loss recognition test

As a minimum, the standard needs to be clear that:

- **Catastrophe and equalisation provisions are banned for all insurance contracts and not just future contracts; and**

- **All options and guarantees should be included in the loss recognition test. For example, guaranteed annuity rates are causing some concern for UK insurance companies and their effects should be considered as part of the overall loss recognition test.**

Question 5 – Changes in accounting policies

The draft IFRS:

(a) proposes requirements that an insurer must satisfy if it changes its accounting policies for insurance contracts (paragraphs 14-17 of the draft IFRS and paragraphs BC76-BC88 of the Basis for Conclusions).

(b) proposes that, when an insurer changes its accounting policies for insurance liabilities, it can reclassify some or all financial assets into the category of financial assets that are measured at fair value, with changes in fair value recognised in profit or loss (paragraph 35 of the draft IFRS).

Are these proposals appropriate? If not, what changes would you propose and why?

ASB comment

(a) We support the proposals in paragraphs 14-17 limiting what changes in accounting policy are acceptable under Phase I. Indeed as discussed above, we would like similar restrictions to apply as a filter to determine the acceptability of existing accounting policies too.

We note that there is some ambiguity about how the restrictions on changes to accounting policies apply. Paragraph 14 refers to the changing of 'its accounting policies for insurance contracts'. Paragraph 16 refers to 'a new accounting policy'. Do the restrictions on changes in accounting policy apply on a policy-by-policy basis or en bloc to all an enterprise's accounting policies for insurance contracts? We believe the restrictions are meant to apply on a policy-

by-policy basis but, whichever is the case, the revised text should make its meaning clear. As recognised in paragraph 15, which talks of improvements in policy being those that come closer to but do not necessarily meet the IAS 8 criteria, the overriding principle is that the proposals should result in requirements that allow any genuine policy improvement and should not become a barrier that ossifies present bad practices.

(b) We support this proposal which is consistent with the similar revision to IAS 39, which we supported.

Question 6 – Unbundling

The draft IFRS proposes that an insurer should unbundle (ie account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet (paragraphs 7 and 8 of the draft IFRS, paragraphs BC30-BC37 of the Basis for Conclusions and paragraphs IG5 and IG6 of the proposed Implementation Guidance).

(a) Is unbundling appropriate and feasible in these cases? If not, what changes would you propose and why?

(b) Should unbundling be required in any other cases? If so, when and why?

(c) Is it clear when unbundling would be required? If not, what changes should be made to the description of the criteria?

ASB comment

We support the IASB in encouraging unbundling of the different components of insurance contracts wherever this is feasible.

Question 7 – Reinsurance

The proposals in the draft IFRS would limit reporting anomalies when an insurer buys reinsurance (paragraphs 18 and 19 of the draft IFRS and paragraphs BC89-BC92 of the Basis for Conclusions).

Are these proposals appropriate? Should any changes be made to these proposals? If so, what changes and why?

ASB comments

We note that IASB itself admits at paragraph BC 92 of the Basis for Conclusions that its requirements on this subject are conceptually imperfect and we believe that there is scope for reconsideration of paragraphs 18 and 19 of ED 5. While we accept the argument at paragraph BC 90 that it would not be right to recognise a gain simply as a result of the difference in accounting for two transactions, we believe the issue has to be viewed in a wider context. Where a cedant reduces its net exposure to certain risks by reinsuring them, any gain resulting from the reinsurance contract can reasonably be viewed as mitigating the artificial loss that arose from excessive prudence in establishing, or the failure to discount the original liability. If the net exposure has been reduced by this means, there is no economic or accounting reason to continue to overstate the original liability.

Like the IASB, however, we regard it as important that gains should not be taken on contracts that look like reinsurance but that do not in fact transfer any significant insurance risk to the reinsurer (financial reinsurance). Provided that the definition of an insurance contract remains robust, those financial reinsurance contracts would not qualify as insurance contracts and would not come within the scope of the ED 5 proposals. The ASB strongly supports the position that financial reinsurance should be treated as a financial rather than insurance transaction.

Question 8 – Insurance contracts acquired in a business combination

IAS 22 Business Combinations requires an entity to measure at fair value assets acquired and liabilities assumed in a business combination and ED 3 Business Combinations proposes to continue that long-standing requirement. The proposals in this draft IFRS would not exclude insurance liabilities and insurance assets (and related reinsurance) from that requirement. However, they would permit, but not require, an expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

(b) an intangible asset, representing the fair value of the contractual rights and obligations acquired, to the extent that the liability does not reflect that fair value. This intangible asset would be excluded from the scope of IAS 36 Impairment of Assets and IAS 38 Intangible Assets. Its subsequent measurement would need to be consistent with the measurement of the related insurance liability. However, IAS 36 and IAS 38 would apply to customer lists and customer relationships reflecting the expectation of renewals and repeat business that are not part of the contractual rights and obligations acquired.

The expanded presentation would also be available for a block of insurance contracts acquired in a portfolio transfer (paragraphs 20-23 of the draft IFRS and paragraphs BC93-BC101 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you suggest and why?

ASB comments

We regard these proposals as appropriate and practical.

Question 9 – Discretionary participation features

The proposals address limited aspects of discretionary participation features contained in insurance contracts or financial instruments (paragraphs 24 and 25 of the draft IFRS and paragraphs BC102-BC108 of the Basis for Conclusions). The Board intends to address these features in more depth in phase II of this project.

Are these proposals appropriate? If not, what changes would you suggest for phase I of this project and why?

ASB comments

While recognising the need for further discussion of the issues involved in Phase II, we believe that the proposed exemption under Phase I for contracts with discretionary participating features is appropriate.

We also support the ban on recognising items that are a mix of liability and equity, such as arise in respect of the unallocated surpluses associated with discretionary participating features in insurance contracts (the Fund for Future Appropriations in the UK). We note that, at this stage, the proposals do not specify how to determine whether the unallocated surplus is a liability or equity. We would envisage that the funds would be described as a liability to the extent that there was a legal or constructive obligation in existence relating to paying benefits to policyholders from the surplus. The IASB could draw on its work on the distinction between liabilities and equity but there is also guidance on identifying and measuring liabilities in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' which could give some guidance in principle on methods of allocating the unallocated surpluses.

Question 10 – Disclosure of the fair value of insurance assets and insurance liabilities

The proposals would require an insurer to disclose the fair value of its insurance assets and insurance liabilities from 31 December 2006 (paragraphs 30 and 33 of the draft IFRS, paragraphs BC138-BC140 of the Basis for Conclusions and paragraphs IG60 and IG61 of the draft Implementation Guidance).

Is it appropriate to require this disclosure? If so, when should it be required for the first time? If not, what changes would you suggest and why?

ASB comments

We regard the IASB's proposal to require disclosure of the fair value of insurance assets and insurance liabilities as acceptable as an interim measure not least because the IASB proposes no restriction on the ways that

an entity may reach an estimate of those fair values. We believe that fair value information (supported, of course, by disclosure of underlying methods and assumptions) will be of interest to users of financial statements, however prepared.

<u>*Question 11 –Other disclosures*</u>

(a) The Exposure Draft proposes requirements for disclosures about the amounts in the insurer's financial statements that arise from insurance contracts and the estimated amount, timing and uncertainty of future cash flows from insurance contracts (paragraphs 26-29 of the draft IFRS, paragraphs BC124-BC137 and BC141 of the Basis for Conclusions and paragraphs IG7-IG59 of the draft Implementation Guidance).

Should any of these proposals be amended or deleted? Should any further disclosures be required? Please give reasons for any changes you suggest.

To a large extent, the proposed disclosures are applications of existing requirements in IFRSs, or relatively straightforward analogies with existing IFRS requirements. If you propose changes to the disclosures proposed for insurance contracts, please explain what specific attributes of insurance contracts justify differences from similar disclosures that IFRSs already require for other items.

(b) The proposed disclosures are framed as high level requirements, supplemented by Implementation Guidance that explains how an insurer might satisfy the high level requirements.

Is this approach appropriate? If not, what changes would you suggest, and why?

(c) As a transitional relief, an insurer would not need to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies the proposed IFRS (paragraphs 34, BC134 and BC135).

Should any changes be made to this transitional relief? If so, what changes and why?

<u>**ASB comments**</u>

(a) We support the proposed disclosures in paragraphs 26 to 29 of ED 5 at the level of principle.

(b) We are not clear about the status of the more detailed disclosures listed in the Implementation Guidance. The disclosures seem to be very far-reaching, and therefore potentially costly, and we wonder whether better disclosures could be achieved by focusing more clearly

in the standard on what is the essential information for the user of the financial statements.

(c) We do not believe that any changes should be made to the transitional relief.

<u>Question 12 – Financial Guarantees</u>

The Exposure Draft proposes that the transferor of a non-financial asset or liability should apply IAS 39 Financial Instruments: Recognition and Measurement to a financial guarantee that it gives to the transferee in connection with the transfer (paragraphs 4(e) of the draft IFRS, C5 of Appendix C of the draft IFRS and BC41-BC46 of the Basis for Conclusions). IAS 39 already applies to a financial guarantee given in connection with the transfer of financial assets or liabilities.

Is it appropriate that IAS 39 should apply to a financial guarantee given in connection with the transfer of non-financial assets or liabilities? If not, what changes should be made and why?

<u>ASB comments</u>

The proposals re financial guarantees seem sensible and appropriate.

<u>Question 13 – Other comments</u>

Do you have any other Comments on the Exposure Draft and Implementation Guidance?

No.