CCDG
COUNCIL ON CORPORATE
DISCLOSURE & GOVERNANCE

[by Post and E-mail]

31 October 2003

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT ED 5 INSURANCE CONTRACTS

The Council on Corporate Disclosure and Governance (CCDG) appreciates the opportunity to comment on Exposure Draft ED 5 *Insurance Contracts* ("ED 5" & "the Exposure Draft") published by the International Accounting Standards Board (IASB) in July 2003. Our comments are divided into General Comments and Responses to Specific Questions set out in the "Invitation to Comment" section of ED 5. Our comments are given in the context of the IASB's Framework for the Preparation and Presentation of Financial Statements considering, *inter alia*, the recognition and measurement criteria therein, whether alternatives are permitted and the adequacy of requirements or guidance. In addition to our comments we feel that we should also give feedback, some which may be opposing views, of the constituency in Singapore which includes representatives of insurance companies operating in Singapore.

General Comments

2. We strongly support the work of the IASB in its efforts towards improving insurance accounting practices by publishing proposals for greater transparency. However, some concerns have been expressed from the insurance industry in Singapore on matters like the disclosure of fair value of insurance assets and liabilities, the extent of guidance in the proposed standard and the extent of disclosure required by the proposed standard. The disclosure of the fair value of insurance liabilities and supporting assets is of concern because of the inadequate guidance on the measurement of fair value. Concerns have been expressed about the practicality of unbundling insurance contracts. Although it is necessary and useful to provide additional information to the users of the financial statements, the extent of the proposed amount of disclosure is burdensome and some information required may be viewed as technical and commercially sensitive. These concerns have been included in the responses to the specific questions.

Responses to Specific Questions

Question 1 - Scope

(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?

(a) The CCDG is in agreement with the two phased approach given the number of unresolved issues with regards to the recognition and measurement of insurance contracts. The implementation guidance in Phase I appropriately sets the platform for dealing with the measurement and recognition issues in Phase II.

In particular the focus on insurance contracts rather than insurance entities provides a basis of accounting for similar contracts.

Clause (a) (i) of Question 1 relates to the proposal by the draft IFRS to include accounting for assets held to back insurance contracts in the scope of IAS 39 Financial *Instruments: Recognition and Measurement* and/or IAS 40 *Investment Property.*

The CCDG is of the view that assets should be subject to the full effect of IAS 39. The issue on mismatch of assets and liabilities as highlighted in BC110 of the ED is still much debated. The CCDG believes that the problems arising from the

mismatch of assets and liabilities and in particular, the determination of valuation of fair value of insurance liabilities should be dealt with in depth before the implementation of the second phase of ED 5.

Clause (a) (ii) of Question 1 relates to exclusion of investment contracts issued by insurance enterprises from the scope of the IFRS.

The CCDG is of the view that it would be more appropriate to account for such contracts in accordance with IAS 39.

(b) The CCDG agrees that it is appropriate for weather derivatives that do not meet the definition of an insurance contract be accounted for in accordance with IAS 39.

Question 2 – Definition of 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?

The CCDG is of the view that the definition of insurance contract set out in the draft IFRS together with the related guidance in Appendix B is appropriate.

Appended below are comments from the Singapore constituency:

(1) From the examples given in ED 5, it seems that investment linked products may not be insurance contracts especially the single premium investment linked contracts. If this is the case, the way to account the premium for such contracts under ED 5 is as a financial liability and not as revenue. This is a very big change in the accounting practice for the insurance industry as it has always been accounted for as revenue.

(2) ED 5 Appendix B paragraph B18(b) states that group contracts which pass all significant insurance risk back to the policyholder through mechanisms that adjust future payments by the policyholder as a direct result of insured losses are regarded as "non-insurance financial instruments". However this contradicts the Draft

Implementation Guideline (IG) Example 1.18 which states that Group insurance contracts that give the insurer an enforceable contractual right to recover claims paid out of future premiums are "insurance contracts".

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?

(a) As fair value measurement of insurance contracts will only be addressed in Phase II of the project, the CCDG agrees that it is appropriate to exempt embedded derivatives that fall within the definition of an insurance contract from the requirements of IAS 39 for fair value measurement.

Consistent with paragraph 8 of the draft IFRS which does not require an insurer to unbundle the surrender value component in a traditional life insurance contract, the CCDG agrees that it is appropriate that the option to surrender an insurance contract for a fixed amount is also exempted from the requirements of IAS 39 for fair value measurement.

(b) The CCDG is of the view that the approach taken is most practical given the challenges in specifically identifying embedded derivatives which meet the definition of insurance contracts which should be subjected to fair value measurement.

(c) The CCDG is of the view that the proposed disclosure requirements for embedded derivatives contained in a host insurance contract, which is not required to be measured at fair value, are adequate.

(d) The CCDG has not identified any other embedded derivative requiring exemption from IAS 39.

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?

(a) As phase II of the project to develop an IFRS for Insurance Contracts will not be in place until all the relevant conceptual and practical issues are resolved, the timing of which is still uncertain, there is great uncertainty as to what are considered appropriate and acceptable accounting policies for insurance contracts that will not contravene the final conclusions of phase II.

Under such circumstances, the CCDG concurs that it is appropriate to grant this exemption from the criteria in paragraphs 5 and 6 of [draft] IAS 8 as a stop-gap measure so that insurers do not need to incur substantial time and costs in changing their existing accounting policies only to have them changed again when phase II of the project is concluded.

Generally, in the absence of an accounting standard on insurance contracts, insurers have so far developed accounting policies based on local industry practice and rules and regulations.

(b)(i) The CCDG concurs that catastrophe and equalisation provisions are not liabilities as defined in the Framework for the Preparation and Presentation of Financial Statements because the insurer has no present obligation for losses that will occur after the end of the current contract period. Hence, such provisions should be eliminated during phase I. The additional disclosure made in the financial statements about the risks arising from underwriting catastrophe business would be appropriate.

Appended below are comments from the Singapore constituency:

An opinion from the Singapore constituency is that the above elimination is not appropriate, as some insurers, due to the insurance contracts that they issued, are exposed to infrequent but severe catastrophic losses caused by events such as damages to nuclear installations or satellites and earthquakes. The catastrophe provisions are generally built up gradually over the years out of the premiums received, usually following a prescribed formula, until a specified limit is reached. They are intended for use on the occurrence of a future catastrophic loss that is covered by current or future contracts of this type. Some countries also permit or require equalisation provisions to cover random fluctuations of claim expenses around the expected value of claims for some types of insurance contract (e.g. hail, credit, guarantee and fidelity insurance) using a formula based on experience over a number of years. These provisions are generally unique to the insurance industry and cushion the industry from huge losses, which may occur due to the nature of insurance exposure and hence protect all parties of the insurance contracts as well as public investors.

(b)(ii) The CCDG is of the view that insurers should carry out the loss recognition test described in paragraphs 11-13 of the exposure draft.

However, we feel that the loss recognition test described in paragraphs 11-13 is too general. Actual practice may therefore differ widely as there is no guidance on which cash flows should be included, whether or how the cash flows should be discounted, or whether how the cash flows or discount rate should be adjusted for risk and uncertainty.

(b)(iii) The CCDG concurs with the above requirements and do not have further comments.

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?

(a) The CCDG would prefer to have clear guidance on matters listed in paragraphs 16 (a) to (e) of the exposure draft, i.e. to expressly prohibit the existing insurers from adopting the accounting policies listed in paragraphs 16 (a) to (e); but given that these matters dealt with are interrelated and that certain matters relating to discount rates and the basis for risk adjustments will not be concluded until phase II, we concur with the proposals listed in paragraphs 14-17 of the exposure draft.

(b) The CCDG concurs as this is in line with the proposed amendments to IAS 39.

Question 6 – Unbundling

The draft IFRS proposes that an insurer should unbundle (i.e. 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?

The CCDG is of the view that unbundling is appropriate especially for financial reinsurance contracts which do not involve a significant transfer of insurance risk. However, there is not much guidance in the exposure draft as to when unbundling is required or the likely types of insurance contracts that would require unbundling besides financial reinsurance contracts as illustrated in the implementation guidance.

As the significant transfer of insurance risk is an important criterion that differentiates an insurance contract from a non-insurance contract, the exposure draft should state clearly the risk transfer rules to be used.

For example, a significant transfer of insurance risk is deemed to have taken place under a contract of reinsurance when the following conditions are met:

(i) it is reasonably possible that the assuming insurer may realise a significant loss from the contract; and

(ii) it is reasonably possible to have a significant range of outcomes under the contract.

The example in the Implementation Guidance IG3 *Unbundling a deposit component of a reinsurance contract* would be more useful if it illustrated the accounting entries to be passed in recognising the deposit component separately.

Appended below are comments from the Singapore constituency:

(1) One of the key points of ED 5 is the need to separate investment contracts from insurance contracts. If products, such as Annuities and Single-Premium Investment-Linked Products, are not classified as insurance contracts, we will be required to unbundle them according to ED 5. This may not be practical or possible. Even if it is possible to do so, the unbundling and the fair valuation of the insurance component will result in a very significant amount of work for insurance companies.

Subjecting all these onerous changes under ED 5 to audit will also create substantial delay in finalising the accounts for financial reporting according to the statutory and listing time-frames.

(2) We need clarification on the definition of "traditional life insurance contract" and if this includes an investment-linked contract.

(3) We support paragraphs 7 and 8 of the draft IFRS that no unbundling is required if an insurer recognises all liabilities under those insurance contracts to pay benefits to policyholders.

However we note that paragraph 8 only makes reference to 'Traditional life insurance'. Hence we would like to clarify if traditional life insurance includes investment-linked contracts.

We generally do not favour any unbundling of insurance contracts because insurance contracts are, in general, designed, priced and managed as packages of benefits and consequently any unbundling of such contracts solely for accounting purposes would be artificial and not reflecting a true and fair value. Hence we do not believe that unbundling should be required in any case.

Question 7 – Reinsurance purchased

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?

The CCDG supports the intention of the proposals to limit reporting anomalies when an insurer buys reinsurance and agree that a cedant should not change its measurement basis for its insurance liabilities when it buys reinsurance.

In respect of paragraphs 18(b)-(d), we note from the basis for conclusions that financial reinsurance contracts and the failure to discount the underlying liability of the insurer are drivers of the requirements and agree with the intention of the proposals for these reasons.

Due to the complexity and variety of reinsurance contracts in practice, there could be legitimate reasons for a gain (or reduction in loss) at inception for other types of reinsurance contracts.

There would also be situations where it would be difficult to measure the "gain" at inception (for example, where the reinsurance contract is entered into on a different basis from the underlying insurance contract(s) entered into by the cedant, or where the reinsurance contract covers several classes of contracts) and any attempt to spread the "gain" over the period of the underlying contract(s) or portfolio of contracts on a systematic and rational basis would be equally difficult.

As Phase I does not address the entire accounting for reinsurance, the CCDG believes more research into such potential difficulties should be carried out, and more detailed guidelines and accounting treatment be provided.

The CCDG notes that paragraph 18(e) requires the cedant to consider circumstances when a liability may be understated and to perform a loss recognition test and agree with the proposal.

Question 8 - Insurance contracts acquired in a business combination or portfolio transfer

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?

The CCDG agrees with the proposal to require insurers to measure the identifiable assets and liabilities in a business combination at fair value under IAS 22 *Business Combinations*, and the proposal to permit an insurer, during Phase I, to use an expanded presentation. We also agree with the other proposals.

We note that there will be difficulties in establishing the fair value of the insurance liabilities as the guidance will not be developed until phase II and this may result in inconsistent practice for accounting of liabilities.

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?

The CCDG agrees with the proposals to address only limited aspects of discretionary features contained in insurance contracts since the Board intends to address these features in more depth in phase II.

We agree with the proposal that the insurer may, but need not, report the fixed element separately from the discretionary participation feature.

We also agree with the proposal that the insurer should classify unallocated surplus arising from the discretionary participation feature as either a liability or equity, and may split the unallocated surplus into liability or equity components but not as an intermediate category that is neither a liability or equity.

The CCDG believes these would give sufficient flexibility until phase II is completed.

We note that paragraph 25 exempts financial instruments with a "discretionary participation feature" from IAS 39 treatment. Given the significance of the concept of discretion to the distinction between liability and equity, we believe clearer guidance would be needed.

Appended below are comments from the Singapore constituency:

An opinion from the Singapore constituency is that a liability is considered as a liability if a contractual right to pay arises. Hence there may been a need to split the policyholders' liabilities from unallocated surplus, but this can be difficult. Therefore it is important to re-look into this in Phase II.

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?

Although the CCDG is of the view that fair value accounting is appropriate and therefore it would be useful to disclose the fair value of insurance assets and insurance liabilities from 31 December 2006, we believe that the decision to adopt the disclosure of fair value should only be made after more definitive guidance is provided on fair values.

Currently, the definitions of fair value for insurance assets and especially for insurance liabilities are not clear. Leaving the insurers to define their own basis runs the risk of disclosure of irrelevant, unreliable and/or incomparable information for users. To enable better understanding of the financial statements and any fair value disclosures made, additional disclosure in the financial statements of information such as the basis used,

assumptions made and/or methodology applied may be required. This would result in some unwieldy disclosure in the financial statements which may not generate the expected benefits to users.

The basis of fair value measurement should also be subject to the due process of debate and consideration to ensure that the method is relevant and practicable and the amount of disclosure required as well as that these are capable of being audited. On the latter point, we are concerned about the auditability of the disclosure without a standard against which to evaluate the information.

The implementation of a fair value model should be considered only when the framework is sufficiently clear and enough time is given to the insurers to consider the requirements and to implement them. Although the intention is to get the insurers to work on it early, the lack of clear guidelines on fair value measurement could lead to efforts not being focused and would be counter-productive.

Appended below are comments from the Singapore constituency:

The CCDG would also like to highlight that certain reinsurance companies are opposed to the whole concept of applying the fair value concept to insurance assets and liabilities. Reasons given include the following:

(1) many classes of insurance business provide coverage for a long period e.g. life and health contracts and valuation of insurance assets and liabilities at fair value would make earnings highly volatile and exceedingly dependent on the economy and market trends instead of the fundamentals of the insurance business.

(2) the measurement of fair value insurance assets and liabilities have not been studied in depth.

(3) there are fundamental differences between insurance contracts and financial instruments and therefore the valuing of the related assets and liabilities on the same basis may not compatible.

(4) it is premature to require the disclosure of the fair value of insurance assets and liabilities when the significant issues (both conceptual and practical) about fair value measurement for insurance contracts in Phase I of the insurance contract project have not been resolved. This requirement will prejudge the final outcome from Phase II and create unnecessary disruption and costs in making system changes, which may be reversed upon the completion of Phase II of the project.

Question 11 – Other disclosures

(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?

(a) Although the CCDG agrees that insurers should be allowed flexibility in determining the levels of aggregation and amount of disclosure in the financial statements, certain benchmarks of prescribed descriptions, order of presentation, level of details of assumptions, etc. should be provided. This would minimise the risk of difference in interpretation and implementation by insurers and ensure less inconsistency and enable better comparability for the users of the financial statements.

Paragraph 27 (c) requires the disclosure of the process used to derive assumptions instead of disclosing the assumptions. However, the description of the process would not necessarily provide the users with relevant information as the details on the assumptions are not disclosed. As such, we question the need to provide disclosure on the process, which may result in a mere checklist type of disclosure.

The text of Paragraph 27 (c) of the draft IFRS appears to differ in emphasis from that of the Implementation Guidance. The latter suggests that a disclosure of assumptions is the benchmark requirement and that a description of the process is required only when the disclosure of the assumptions is not considered practical due to the volume of information. The draft IFRS, however, appears to suggest that the benchmark is the disclosure of the process rather than the assumptions.

Paragraph 27 (d) – If the assumptions and their quantification are not set out under 27 (c), the effect of each change in assumption to be shown would be meaningless or could be deemed not practicable by the insurer.

There is also a practical difficulty on the issue of interdependency of the assumptions and the limitations of such analysis and meeting the local statutory timeline for the announcement of audited results if all information envisaged by ED 5 is required.

Different levels of aggregation/disaggregation by the various insurers could result in incomparable information.

Paragraphs 28 and 29 of the draft IFRS require the insurer to disclose sensitive information on the insurance contracts' terms and conditions that affect the timing and uncertainty of future cash flows and on insurance risks.

Most of these should not form part of financial statements in that they deal with the insurer's risk management strategy and estimates of the future. Furthermore, certain information required may be viewed as commercially sensitive.

The requirement to provide users of financial statements insights into the key risk drivers and sensitivities would require insurers to incur additional costs.

The issue of auditor responsibilities with regards to this additional information in the financial statements on process, assumptions, key drivers, sensitivity analysis, future cash flows projections, managements views and plans, etc have to be addressed.

Overall the CCDG considers that the significant array of disclosures may be excessive. This will be particularly relevant to the smaller insurance companies which may not have the resources to fully comply with the proposed disclosure requirements.

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(b) **The high level requirement is good as it allows flexibility, but more detailed guidance in terms of minimum disclosure and the benchmark expected on top of what is set out in the Implementation Guidance is necessary to enable the insurers to focus and produce information that minimises diversity and allows some consistent basis of comparability.**

(c) **The CCDG agrees with the transitional provisions.**

Appended below are comments from the Singapore constituency:

(1) **We have one comment to make which pertains to Paragraph 29 (c) (iii) of the proposed IFRS. The main objective of providing more disclosures of financial information in the annual report of insurance companies is to enable the public to have a better understanding of the financial statements. However, we feel that some of the recommended disclosures are quite technical and may not necessarily lead to a better understanding of the financial statements.**

For example, in Paragraph 29 (c) (iii), it is recommended that insurance companies should disclose information about actual claims compared with previous estimates (claim development). An example of the Disclosure of Claims Development is given in paragraph IG 49 Example 4. A layman may not understand what this table is trying to say.

We believe that this disclosure does not help in providing the public with a better understanding of the financial statements and recommend that it be deleted.

(2) **We agree with the general principle that it is necessary and useful to provide additional information to the users of the financial statements and continue to remain transparent. However, the extent of the proposed amount of disclosure is burdensome (e.g., the process used to determine the assumptions on assets, liabilities, income and expenses) and some information required may be viewed as commercially sensitive. These include terms and conditions of the insurance contracts, risk management strategy and estimates of future cash flows. We also note that some of these proposed disclosures can be impractical to implement and there are insufficient examples on the extent of disclosure required. It is left very much to individual entity to decide.**

(3) **The requirement to disclose the estimated amount, timing and uncertainty of future cash flows. This information is quite technical in nature. In what format do they require the disclosure? Do they have a prescribed basis?**

Question 12 – Financial guarantees by the transferor of a non-financial asset or liability

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?

The CCDG agree that IAS 39 should apply to guarantees that do not form part of insurance contracts.

Contracts that provide cover against credit risks and financial guarantees that meet the definitions of insurance should be treated as insurance contracts and covered under this proposed IFRS.

Question 13 – Other comments

Do you have any other comments on the draft IFRS and draft Implementation Guidance?

The CCDG would like to have a clearer definition of traditional life insurance contracts and whether such contracts include investment linked insurance products.

3. We shall be pleased to discuss our comments and views with the Board or its staff. Please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at jagtiani@icpas.org.sg should you require further information. Thank you.

Yours sincerely,

Derek How
Secretary, CCDG