ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

CL 126

1 November 2002

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David,

In response to your request for comments, I am pleased to transmit on behalf of the International Actuarial Association (IAA), a draft of our comments on the Exposure Draft of revisions to IAS 32 and IAS 39.

The International Actuarial Association (IAA) is the organization representing professional actuarial associations internationally. We are not a trade association and we do not represent the interests of either clients or employers. As actuaries, we have developed significant experience and expertise in the assessment of the value of contingent cash flows. Using this experience, actuaries hope, as a profession, to continue to provide assistance to those involved in the enhancement of the standards of accounting on an international level, through the development of objective and meaningful standards which will command respect from users of financial statements. We stand willing to provide assistance deemed appropriate in the furtherance of this objective.

We encourage the general objective and intent underlying the large portion of this proposal. Nevertheless, we offer the attached comments in the hope of pursuing of enhancing the final revised standards. We hope that our comments are of value and we look forward to providing further assistance to the IASB in the future.

These draft comments have been prepared by a committee of the IAA, the members of which are listed in the submission by name and association, and are being circulated for approval to the member associations of the IAA listed in the Appendix as part of our due process procedures. Member associations expect to have three months to approve a public statement to be made on behalf of the IAA. I will let you know when these procedures have been completed and whether the draft has been approved in its entirety, or modified in any way.

Yours sincerely,

Edward J. Levay, FIA

President attachment

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(Draft Comments of the IAA, not having completed the required due process as of the date of submission)

International Actuarial Association
Comments on the Exposure Draft of Proposed
Amendments to
IAS 32, Financial Instruments: Disclosure and Presentation, and
IAS 39, Financial Instruments: Recognition and Measurement

THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our forty-four full member actuarial associations represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact upon the areas of expertise of actuaries.

The IAA appreciates this and other opportunities to provide input to and assistance in the development of financial reporting standards. We commend the continuing efforts of the IASB in this very worthwhile effort.

DUE PROCESS

This is a draft version of the IAA's comments that has been prepared by the Insurance Accounting Standards Committee of the IAA, the members of which are listed below by name and association. The full member associations of the IAA are also listed below (in an Appendix to this statement). The final copy of this draft statement will be transmitted to the IASB as soon as this draft statement has passed through the IAA's due process review process.

MEMBERS OF THE
INSURANCE ACCOUNTING COMMITTEE OF THE IAA

Sam Gutterman	(Chair)
Paul McCrossan	(Vice-chair)
Francis Ruygt	(Vice-chair)
Clive Aaron	Institute of Actuaries of Australia
Bill Abbott	Institute of Actuaries
Yutaka Amino	Institute of Actuaries of Japan
Félix Arias Bergadà	Col.legi d'Actuaris de Catalunya
Daniel N. Barron	Israel Association of Actuaries
Ralph Blanchard	Casualty Actuarial Society
Guy Castagnoli	Association Suisse des Actuaires
Morris W. Chambers	Canadian Institute of Actuaries
Paolo de Angelis	Istituto Italiano degli Attuari
Mariano Gongora Roman	Instituto de Actuarios Españoles
Eva Gustafson	Svenska Aktuarieföreningen
Stephen Handler	Actuarial Society of South Africa
William Hines	American Academy of Actuaries
Tony Jeffery	Society of Actuaries in Ireland
Liyaquat Khan	Actuarial Society of India
Ad Kok	Het Actuarieel Genootschap
Jean-Pierre Lassus	Institut des Actuaires
Won How Lo	Actuarial Institute of the Republic of China
Jose Mendez	Colegio Nacional de Actuarios A. C.
Craig Murison	Faculty of Actuaries
Markku Paakkanen	Suomen Aktuaariyhdistys
Richard Robertson	Society of Actuaries
Dieter Silbernagel*	Deutsche Aktuarvereinigung e. V. (DAV)
Bjarni Thordarson	Félag Islenskra Tryggingastærðfræðinga
Wilma Torres	Instituto Brasileiro de Atuária (IBA)
Gérard Vandenbosch	Association Royale des Actuaires Belges
Robert E Wilcox	Conference of Consulting Actuaries

Overall, we believe that the Exposure Draft of proposed *Amendments to IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement* ("Exposure Draft") prepared by the IASB is an enhancement of the current version. Nevertheless, we believe that IAS 32/39 needs further improvement.

Our general comments address the need (1) to enhance the consistency of the measurement of financial assets and financial liabilities, and (2) to improve the measurement of financial liabilities associated with products sold by insurers.

As we prepared to send this response, we became aware of some recent developments. In particular, we note that the definition of insurance contract that is to be incorporated in the redrafted IAS32 and IAS39 has now been revised to be much closer to that which was set out in the DSoP. We support and applaud the initiative to move to a DSoP-based definition of insurance contract throughout the IFRSs.

We note, also, that the issues of investment contracts issued by insurers and of embedded derivatives in insurance contracts that do not qualify as closely related will be addressed at the November 2002 meeting of the IASB. We will attempt to comment on the IAS32/39 issues involving insurance contracts which are to be discussed in Hong Kong in a supplementary brief which we are only now starting to prepare.

Consistency of measurement objectives. It has been a long-standing position of the IAA that a consistent basis of measurement of financial assets and financial liabilities will produce more meaningful financial reporting information. For example, reporting assets that provide for the funding to meet corresponding obligations in a manner consistent with the measurement of insurers' liabilities for both its investment and insurance products will avoid the potentially misleading results that can occur if assets and liabilities are reported under inconsistent bases. We recommend that consistent measurement both between financial assets and financial liabilities and across categories of financial assets and financial liabilities should be treated as an extremely important feature of the financial reporting of financial instruments, including the liabilities for insurance products. Prior to the implementation of Phase 2 of the Insurance Contracts project, one result of inconsistent approaches will likely be the emergence of accounting arbitrage, both between companies reporting in jurisdictions with different local financial reporting requirements and between contracts with different accounting treatment within a single company.

Liabilities associated with the products of insurance companies. There are several types of issues that should be addressed by IAS 32 and IAS 39 to enable the development of more meaningful financial reporting for the insurance and investment products offered by insurers. Phase 1 and Phase 2 of the IASB's Insurance Contracts project will address most of these issues further. However, they are also important in the context of the IAS 32/39 Improvement Projects.

1. **Insurance definition and exclusion in IAS 32**. We find the definition of an insurance contract in IAS 32 and IAS 39 to be seriously deficient. We disagree with the proposed change in paragraph 1(c) in IAS32 that excludes the rights and obligations under insurance contracts. This exception to the exclusion regarding application of IAS 32 to insurance contracts appears to differ substantially from the treatment that would follow from the definition of an insurance contract found in the Draft Statement of Principles (DSOP) of the Insurance Contracts project. In particular, we object to the statement in paragraph 1(c) and (3) of IAS 32, "the provisions of this Standard apply when a financial instrument takes the form of an insurance contract but principally involves the transfer of financial risks." Thus, although IAS 32 excludes insurance contracts from its scope, through the use of the term "principally" without modification, in fact it would cover the liability associated with many if not most permanent life insurance contracts (for example, endowments, limited payment life insurance and possibly even whole life insurance), contracts that should not be addressed in this standard.

   We believe that it is very important that a common definition of insurance contracts be used throughout all International Financial Reporting Standards. This will avoid confusion and inconsistent treatment of such contracts. There are several possible approaches that the IASB could take in this regard. We recognize that it is debatable whether such a revised definition should be adopted in conjunction with the adoption of the changes associated with this exposure draft or Phase 1 of the insurance contracts project. Of course, by the time that Phase 2 is adopted, the IASB should assure that this consistency is in place. From a practical standpoint, it would be highly desirable if changes in the measurement approach applied to those insurance contracts that will be accounted under IAS 39 in Phase 2 only have to be made once. In any event, we do not believe that the current use of "principally involves" is appropriate.

The IASB could take one of several approaches to address this issue, including the following.

- Deferral of adoption of specific guidance for the measurement of all products offered by insurers until the completion of Phase 2 of the Insurance Contracts project. This would result in the avoidance of two potentially costly IT changes imposed on insurers over a short period of time that would be necessary to maintain compliance with IAS, if further extensive changes are required after Phase 2 implementation. We recognize that such a blanket deferral may not appeal to the IASB.
- Modify current paragraph 3 of IAS 32 to reduce the scope of coverage of insurance exposures of the proposed IAS 32/39, in particular abandoning the use of the term "principally". Instead, IAS 32 could be modified to exclude insurance contracts except if such contracts do not have **"***a significant effect on the present value of cash flows deriving from insurance risk.*"
- Incorporate a definition of insurance consistent with that included in the DSOP (subject to minor modifications being considered in Phase 1 or Phase 2). This could be done in conjunction with the adoption of the recommendations of this project or with the completion of Phase 1 or Phase 2 of the Insurance Contracts project. If done prior to Phase 2, it would then be subject to potential change in that phase, although far less work would be required than if the current definition were applied now.
- Incorporate a revised definition of insurance after due deliberation of Phase 2 of the Insurance contracts project. Of course, if it can reasonably be assured that adoption of a desirable definition (consistent with the one adopted in conjunction with Phase 2) can be established in the context of the current IAS 32/39 project, there is no reason why such a revision needs to be delayed.
- Clarify whether, for example, "*principally*" could be interpreted to mean "*nearly completely*".
- Develop an interpretation by the IASB (IFRC) of "principally" to mean "*nearly* completely" rather than anything greater than fifty percent or (probably less desirable for the IASB) have the IAA provide guidance with respect to the interpretation.

In any case, if any insurance risk were included in IAS 32, guidance for its measurement would be needed from some authority.

Although from an ideal perspective we are in favor of a single definition to be applied in this project, in Phase 1 and in Phase 2, we realize that this consistency cannot now be assured. However, a definition similar to the DSOP definition will likely be close to the underlying exposures of the contract. It would also provide more consistent accounting treatment across the spectrum of insurance contracts.

In addition, it may be more appropriate to treat financial guarantee contracts in a manner consistent with insurance contracts, rather than under these proposed standards.

2. **Embedded Derivatives in Insurance Contracts.** For those contracts measured by an amortized cost model, the proposed revisions do not exclude insurance contracts from the

requirement for separate valuation of embedded derivatives. Without further guidance, it will be difficult to apply any accounting basis (be it a local GAAP or other basis) that does not provide guidance for this situation. Consequently, further guidance regarding embedded derivatives not closely related in an insurance contract should be provided; otherwise this will simply create confusion. This guidance should include such items as the definition for, and examples of, the embedded derivatives being referenced. For some of these derivatives, limited market activity indicates that further work might be needed in developing methods for measurement.

Although we recognize the need for consistent treatment of insurance contracts and other financial instruments, it is possible that prior to the adoption of Phase 2 of the Insurance Contracts project, acceptable measurement of the liabilities associated with insurance contracts will follow local GAAP guidance. The lack of a local GAAP requirement to unbundle embedded derivatives would argue against the implementation process, which would then likely be both difficult and onerous.

Further, contrary to the relief intended in Phase 1, separate measurement of embedded options and non-closely related insurance host contracts (or alternatively, insurance options included in non-closely related investment contracts) under local GAAP may be problematic, since new methods and significant IT effort may have to be developed and that might subsequently not be needed under approaches taken by Phase 2. The requirement to unbundle embedded derivatives creates an effort for insurance companies beyond what appears to be anticipated in existing guidance and beyond the objectives of Phase 1. One approach could be for the IASB to exclude insurance contracts from the requirement for separate measurement of certain classes of embedded derivatives, possibly on a temporary basis until Phase 2 is complete. In any case the IASB should be careful in defining "closely related" in the context of insurance contracts in both the standards themselves and accompanying interpretations.

3. **Deficiencies in financial liabilities**. We believe that it is appropriate to reflect deficiencies in the value of a financial liability. By this we mean that if using an amortized cost method is being used to value a financial instrument and the recorded liability is not sufficient to provide for the present value of future expected cash flows under the contract, the liability should be increased to provide for such obligations. Further guidance would be needed to measure the present value of expected cash flows. The proposed revisions to IAS 39 provide guidance on recognizing asset impairments. However, there is no guidance with respect to recognizing deficiencies in financial liabilities.

4. **Guidance for financial liabilities associated with contracts included within the scope of IAS 39.** Overall, there seems to be far more guidance provided within the proposed IAS 39 with respect to the measurement of financial assets rather than for financial liabilities. Further guidance should be provided regarding the treatment of financial liabilities.

   The proposed IAS 32/39 does not provide sufficient guidance for insurance companies to measure liabilities of the contracts covered, whether the methods employed be amortized cost or fair value. Without interpretation or elaboration, the application of these IASs in such cases would likely result in inconsistent liability valuation.

   Consistency of measurement between insurance and investment contracts is important because we believe that a non-material change to the features of a financial product should not be permitted to result in a material change in measurement, thereby encouraging accounting arbitrage between contracts covered under IAS 39 and insurance contracts; a highly likely result if measured on inconsistent bases. Any such difference would likely encourage creative product development, reinsurance or other action that would result in accounting arbitrage toward the use on a contract-by-contract basis of the most "favorable" treatment.

In particular, for the purpose of measurement of liabilities associated with many of the investment products offered by insurance companies (e.g., annuities in the accumulation stage), there is insufficient guidance, whether amortized cost or the fair value models are used. We assume that it is likely that there will not be sufficient time in the course of adoption of revised IAS 32/39 or Phase 1 of the Insurance Contracts project to develop such adequate rigorous guidance with appropriate field testing for these investment contracts.

For example, issues that need to be resolved include: measurement of performance-linked contracts, the extent to which contract renewals should be reflected, recognition of when unbundling of embedded options and guarantees should be separately valued (if amortized cost method is applicable), and treatment of non-guaranteed elements. We look forward to working with the IASB in the development of such guidance (as well as development of applicable actuarial standards relating to the measurement of such financial liabilities).

Actuarial guidance regarding the application of IFRSs. It is important to note that the IAA intends to provide actuaries with guidance regarding application of pertinent IFRSs, including IAS 39. Discussions are currently taking place within the IAA regarding the nature of this guidance. However, definitive actuarial recommendations cannot be developed fully without key structural conclusions having been reached by the IASB with respect to the accounting issues involved (e.g., treatment of renewals and performance linked contracts). Consequently, we encourage a speedy decision process with respect to the resolution of the issues associated with IAS 32 and 39, including any further potential changes to these standards as a result of the Insurance project. If this does not occur, it could jeopardize the timely development of corresponding actuarial standards. We anticipate that this actuarial guidance will focus on measurement issues needed to develop reliable estimates of the liability for insurance contracts and other financial instruments offered by insurers, consistent with the financial reporting framework as adopted by the IASB. These may include:

- Estimation of contractual cash flows and appropriate recognition of renewal premiums when valuing financial liabilities at any of amortized cost, fair value or entity-specific value, as applicable.
- Valuation of contracts without well-defined contractual cash flows, such as non-guaranteed elements including excess interest, when using amortized cost.
- The acceptability of commonly used actuarial techniques for fair value or entity-specific value calculations, e.g., those associated with actuarial appraisals.

The following deals with the questions asked in the Exposure Draft regarding Proposed Improvements to IAS 32

Question 1 – Probabilities of different manners of settlement (paragraphs 19, 22, and 22A)

Do you agree that the classification of a financial instrument as a liability or equity in accordance with the substance of the contractual arrangements should be made without regard to probabilities of different manners of settlement? The proposed amendments eliminate the notion in paragraph 22 that an instrument that the issuer is economically compelled to redeem because of a contractually accelerating dividend should be classified as a financial liability. In addition, the proposed amendments require a financial instrument that the issuer could be required to settle by delivering cash or other financial assets, depending on the occurrence or non-occurrence of uncertain future events or on the outcome of uncertain circumstances that are beyond the control of both the issuer and the holder of the instrument, to be classified as a financial liability, irrespective of the probability of those events or circumstances occurring (paragraph 22A).

> *Response* – **We agree that the substance rather than the form of contractual arrangements should be the guiding principle in determining whether an instrument should be categorized as a liability or as equity.**
>
> **Because of our preference for substance over form, we do not understand why the change in classification of a contractually accelerating dividend is being removed. In this case, assuming that the issuer is indeed economically compelled to redeem it, the categorization of such an instrument as a financial liability appears reasonable. Although it is reasonable either to use a high probability threshold or to reflect the expected probability of redemption in the measurement of the value, it would seem to us to be preferable to recognize such a high probability event rather than to ignore its reality.**
>
> **We agree with classifying as a financial liability an instrument whose outcome is determined by circumstances outside the control of both the issuer and the holder of the instrument.**

Question 2 – Separation of liability and equity elements (paragraphs 28 and 29)

Do you agree that the options in IAS 32 for an issuer to measure the liability element of a compound financial instrument initially either as a residual amount after separating the equity element or based on a relative-fair-value method should be eliminated and, instead, any asset and liability elements should be separated and measured first and then the residual assigned to the equity element?

> *Response* – **We agree. In general, we believe that the elimination of optional accounting treatments constitutes good standard-setting practice, promoting comparable measurement across companies. We believe that the method selected is preferable to the others identified to be eliminated. Nevertheless, as long as non-material differences result, practical approaches, including those proposed to be eliminated, should be permitted in the cases in which the computations involved are simpler and less expensive to develop.**

Question 3 – Classification of derivatives that relate to an entity's own shares (paragraphs 29C – 29 G)

Do you agree with the guidance proposed about the classification of derivatives that relate to an entity's own shares?

Response – **We do not have an opinion regarding the classification of derivatives that relate to an entity's own shares.**

Question 4 – Consolidation of the text in IAS 32 and IAS 39 into one comprehensive Standard

Do you believe it would be useful to integrate the text in IAS 32 and IAS 39 into one comprehensive Standard on accounting for financial instruments? (Although the Board is not proposing such a change in this Exposure Draft, it may consider this possibility in finalizing the revised Standards.)

Response – **We believe that it makes sense conceptually to combine these two standards into one, as it would provide guidance in a single location that is easier to read and more comprehensive. In addition, it would make the standards with respect to financial instruments more consistent in structure with standards dealing with other elements of financial reporting. However, we do not believe that it should be viewed as a high priority effort to do so. If attempted, the integration should be done carefully to assure that guidance is provided in a manner consistent with the proposed intent.**

The following deals with the questions asked in the Exposure Draft regarding Proposed Improvements to IAS 39

Question 1 – Scope: loan commitments (paragraph 1(i))

Do you agree that a loan commitment that cannot be settled net and the entity does not designate as held for trading should be excluded from the scope of IAS 39?

Response – **We do not understand the rationale for excluding such loan commitments from the scope of IAS 39. Although usually provided in life insurance contracts rather than investment contracts, the expected utilization of policy loans is an example of circumstances where the expected effect of loan availability should be reflected in the present value of all relevant future cash flows. In the case of policy loans, the exercise of which is a policyholder option, to the extent that the expected policy loan interest rate differs from a risk free rate, the expected utilization and repayment should be reflected. They should be taken into account when they are advantageous options based on the value of the option in a given situation.**

Question 2 – Derecognition: continuing involvement approach (paragraphs 35-57)

Do you agree that the proposed continuing involvement approach should be established as the principle for Derecognition of financial assets under IAS 39? If not, what approach would you propose?

Response – **In general, we do not believe that a rule-based approach such as continuing involvement should be the sole, or even in many cases the most important, criterion that should be applied to determine when to derecognize a financial asset. For example, where an insurer has directly written a contract that was subsequently reinsured, the reinsurer could undertake the entire financial obligation but the original**

insurer could still be involved in the administration of the contract. If the direct writer is not responsible for fulfilling the financial portion of the contractual obligation whether or not the reinsurer is able to fulfill its financial obligation, the continuing involvement of the direct writer with such a contract should not be relevant to the decision whether to derecognize the liability. Either the continuing involvement approach should be clarified further or it should not be the sole criterion used. As an alternative, the approach used in SFAS 140 could be considered for use here.

We believe that the approach and description of standards with respect to the derecognition of financial liabilities (described in paragraphs 58-65C), should be more parallel and consistent with the treatment of financial assets.

Question 3 – Derecognition: pass-through arrangements (paragraph 41)

Do you agree that assets transferred pass-through arrangements where the cash flows are passed through from one entity to another (such as from a special purpose entity to an investor) should qualify for Derecognition based on the conditions set out in paragraph 41 of the Exposure Draft?

***Response* – In the case of a special purpose entity (SPE), we believe that it would be appropriate to define more clearly the requirements to be an SPE. In this area, we encourage convergence with the emerging treatment of SPEs by other accounting standard-setters, such as the FASB. Especially post-Enron, IAS 39 should be constructed in a clear manner as to when Derecognition of an SPE should occur. In any case, we believe that the substance of a transaction should be recognized, rather than the form. It is not appropriate to introduce special rules to apply to pass-through structures.**

Question 4 – Measurement: fair value designation (paragraph 10)

Do you agree that an entity should be permitted to designate any financial instrument irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognized in profit or loss?

***Response* – In general, we are concerned with the potential lack of consistency of measurement resulting when optional treatment is allowed. Although this choice provides an entity with the capability of being significantly more flexible in certain circumstances, particularly in cases in which consistent measurement of assets and liabilities are important, we are concerned about the potential for lack of comparability of measurement both among entities and even within a single entity. If this flexibility were allowed in the standard, disclosure of the amounts valued according to each of these methods might be appropriate, or at least disclosure of the fair value if amortized cost is selected.**

We again reiterate our belief that assets and liabilities should be measured in a consistent manner. For example, if asset measurements are based on fair values, liabilities should be measured in a comparable manner.

In addition, we are concerned about the lack of guidance provided for certain financial liabilities, particularly with respect to such insurance company products as annuity contracts that fall within the scope of IAS 39. We note that even if an amortized cost model is applied, a financial asset or liability should always be subject to impairment

testing, as indicated under the topic of impairment described in paragraphs 112 and 113 (for financial assets) and deficiencies in the case of financial liabilities.

In addition, if this option becomes available when the revised IAS 32/39 is adopted, we believe that the "one-time irrevocable designation" of one basis prior to the introduction of Phase 2 of the IASB's Insurance Contracts project should be permitted to be changed at the time of adoption of Phase 2. This would be appropriate due to possibly different definitions or treatment under Phase 1 and Phase 2.

Question 5 – Fair value measurement considerations (paragraphs 95-100D)

Do you agree with the requirements about how to determine fair values that have been included in paragraphs 95-100D of the Exposure Draft? Additional guidance is included in paragraphs A32-A42A of Appendix A. do you have any suggestions for additional requirements or guidance?

Response – **There is a lack of sufficient guidance with respect to the valuation of a financial liability at amortized cost. In addition, it may be appropriate to utilize an entity specific approach rather than a fair value one, especially in the absence of a viable market.**

Question 6 – Collective evaluation of impairment (paragraphs 112 and 113A-113D)

Do you agree that a loan asset or other financial asset measured at amortized cost that has been individually assessed of impairment and found not to be individually impaired should be included in a group of assets with similar credit risk characteristics that are collectively evaluated for impairment? Do you agree with the methodology for measuring such impairment in paragraphs 113A-113D?

Response – **Although, in general, we agree with the methodology described in paragraphs 113A-113D, we believe that it would be appropriate to provide comparable guidance with respect to measurement of a deficiency in a financial liability. In particular, other risk characteristics than simply credit risk may be appropriate for use in the determination of grouping of units of account. An example of such other characteristic could be the extent to which the financial asset (or liability) is subject to the adverse effects of inflation.**

Question 7 – Impairment of investments in available-for-sale financial assets (paragraphs 117-119)

Do you agree that impairment losses for investments in debt and equity instruments that are classified as available for sale should not be reversed?

Response – **We agree that reversal of impairment losses (other than with respect to the unwinding of the time value of money) is inappropriate. We note however that this appears to be inconsistent with the reversal of impairments on other assets covered by IAS 36. The IASB may wish to consider whether this inconsistency is appropriate. In addition, the treatment of impairments should be treated in a consistent manner in all standards.**

Question 8 – Hedges of firm commitments (paragraphs 137 and 140)

Do you agree that a hedge of an unrecognized firm commitment (a fair value exposure) should be accounted for as a fair value hedge instead of a cash flow hedge as it is at present?

> ***Response* – In general, we agree with this classification. However, we wonder whether this is appropriate in the case where a financial asset is valued on an amortized cost basis.**

Question 9 – 'Basis adjustments' (paragraph 160)

Do you agree that when a hedged forecast transaction results in an asset or liability, the cumulative gain or loss that had previously been recognized directly in equity should remain in equity and be released from equity consistently with the reporting of gains or losses on the hedged asset or liability?

> ***Response* – We agree.**

Question 10 – Prior derecognition transactions (paragraph 171B)

Do you agree that a financial asset that was derecognized under the previous derecognition requirements in IAS 39 should be recognized as a financial asset on transition to the revised Standard if the asset should not have been derecognized under the revised derecognition requirements (i.e., that prior derecognition transactions should not be grandfathered)? Alternatively, should prior derecognition transactions be grandfathered and disclosure be required of the balances that would have been recognized had the new requirements been applied?

> ***Response* – With appropriate disclosure, we believe that restatement of prior derecognition should be permitted.**

We would be pleased to provide the IASB with elaboration or clarification of any of the comments we have presented herein. We are eager to provide continued objective assistance to the IASB.

Appendix

Full Member Associations

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Cyprus Association of Actuaries (Cyprus)
Ceská Spolecnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Actuarial Society of India (India)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Lebanese Association of Actuaries (Lebanon)
Colegio Nacional de Actuarios A. C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of the Republic of China (Taiwan R.O.C.)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)

American Academy of Actuaries (United States)
American Society of Pension Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)