A F E P

Association Française des Entreprises Privées

IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, November 30, 2010

Re: ED« *Insurance Contracts* »

We welcome the opportunity to comment on the IASB exposure draft dealing with "*Insurance Contracts*" (the ED).

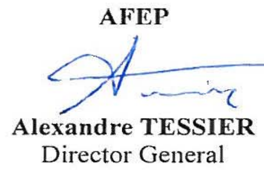
We support the development of a robust standard for the accounting for insurance contracts which will ensure that all insurer entities can use a consistent and comparable accounting approach for all their insurance activities.

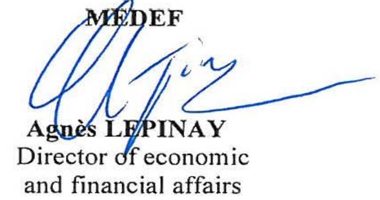
We are content with a number of the changes that have been made from the insurance discussion paper (the DP), but we think there are still several problems which have not been resolved or areas which the proposals do not deal with in a satisfactory way. Our main concerns relate to the overall Business model of insurance that is not appropriately reflected in the proposed approach, in our view, and to the transitional requirements that will prevent insurers from reporting the whole of their performance over the initial periods following the introduction of the new standard.

We urge the Board to pursue its work to address all these main concerns and achieve a robust and relevant standard, no matter how long it takes. Indeed, the only priority should be the quality of this future standard, and not the compliance with an agenda that one might find a bit too ambitious.

To achieve this objective, we believe that comprehensive field testing of the proposals will be necessary to ensure that they are workable and result in relevant information.

Should you require any supplementary comment or explanation, please do not hesitate to contact us.





Appendix to our letter on the IASB's ED "Insurance contracts".

Answers to the specific questions raised in the invitation for comments.

Question 1 – Relevant information for users (paragraphs BC13–BC50)

Do you think that the proposed measurement model will produce relevant information that will help users of an insurer's financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

Firstly we welcome the improvements made since the previous proposals in the Discussion Paper (the DP), as we believe the proposed new model, based on a fulfilment value, is a good step toward an IFRS of good quality, since it addresses many concerns that we and other commentators have expressed.

However, this first step does not yet go far enough. In our view the Board should go further in developing a standard that can encompass the whole Business model of the Insurance sector. In fact, although we understand that the Board has not sought to develop an industry-specific IFRS, we strongly believe that the future standard should not ignore the strong link between liabilities and assets in the Insurance Business model, and that every effort should be made to best reflect the performance of such activities.

Current proposals, as laid out in this exposure draft, combined with the recent developments in the accounting for financial assets, lead in our view to unacceptable accounting mismatches that prevent the entity from representing the economic performance of insurance activities in a way that reflects the integrated management of both liabilities and assets. We believe that financial reporting should reflect mismatches only when these actually exist in economic terms and that under no circumstances should economic symmetry should be distorted by the effects of accounting provisions.

We understand from the Basis for Conclusions that the solution proposed by the Board to minimize such mismatches is to use the fair value option for financial assets, regardless of the Business model and the holding horizon of the assets. We believe this solution is not sustainable .We therefore urge the Board to consider a more complete solution to this crucial issue in order to reflect in financial reporting a performance consistent with the long term character of the insurance business and not distorted by short term market fluctuations.

Different scenarios may have been explored by the Board to resolve this issue and we regret that none of them has been discussed in the exposure draft. We do not pretend that we can offer the solution, but we suggest that the following avenues might be explored:

- The Board could integrate in a single standard, as is the case with IAS 19, the accounting and evaluation requirements for both the assets and the liabilities arising from insurance activities as we can see some similarity between pension plan liabilities and assets and insurance liabilities and assets which are managed together. Such an approach could result in measuring both liabilities and assets

(financial assets or non-financial assets held to cover insurance commitments) at current value with remeasurements for future periods (and after adjustment of residual margin) recognised first in OCI and subsequently recycled in net income. This is along the lines of what we have proposed for actuarial gains and losses in our response to the recent exposure draft on pensions.

- This alternative also allows one to ensure that the same measurement and recognition provisions are used for all assets, whether or not they are financial assets.

- If the Board does not accept the need to develop a comprehensive standard to deal with the whole business model of insurance (i.e. both assets and liabilities as proposed above, along the lines of IAS 19,) and instead maintains the IFRS on Insurance contracts dedicated only to liabilities, we believe that some remeasurements should be first recognized in OCI and then recycled in net income. This alternative would also necessitate the modification of IFRS 9 – phase 1 in order to permit a fair value through OCI not only for equity instruments but for all financial assets, and to require recycling from OCI to net income when assets are derecognized.

- The Board could also consider keeping the measurement method for insurance liabilities as proposed in the ED but modifying it by fixing the discount rate at inception (while requiring all other assumptions to be revalued as necessary). In this context, most of the assets should be measured at amortized cost, to the extent that they are eligible to be included in this category. This would also require changing IFRS 9 in particular for embedded derivatives that must be bifurcated.

- Finally, if the fair value option is the ultimate alternative to be considered, it would also require some amendments to IFRS 9 to add some flexibility with designation and de-designation in order to ensure that the fair value option would always resolve accounting mismatches.

Question 2 – Fulfilment cash flows (paragraphs 17(a), 22–25, B37–B66 and BC51)

(a) Do you agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract? Why or why not? If not, what do you recommend and why?

(b) Is the draft application guidance in Appendix B on estimates of future cash flows at the right level of detail? Do you have any comments on the guidance?

We welcome the move from an exit value, as proposed in the DP, to a fulfilment value. This measurement indeed best depicts the Business model of insurers, which is to fulfil their obligations rather than to transfer them. Furthermore, we think that the determination of cash-flows based on the entity's specific data is much more relevant than the model proposed in the DP, which was focused on market participant information.

We also agree with the building-block approach and that an expected value is a relevant measure for insurance contracts because it reflects the way risks are managed in such activities and because the information required to do this with an adequate level of reliability is generally available (Note that this is not true for all the other individual non-contractual liabilities which fall within the scope of IAS 37). Expected values are also more reliable in the case of insurance contracts because they are estimated at a portfolio level.

Concerning the unit of account, we believe that an improvement is still necessary in order to align all measurement requirements in the forthcoming standard at the same level, i.e. at the portfolio level as it reflects the way that contracts are managed by insurers. In this context, we agree with the proposed definition of a portfolio as stated in appendix A. All references to the individual insurance contract would then have to be dropped.

Question 3 – Discount rate (paragraphs 30–34 and BC88–BC104)

(a) Do you agree that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

We believe that the discount rate should reflect only the time value of money and no characteristics other than those appropriate for the insurance contract liabilities

When cash-flows arising from assets affect cash-flows arising from the liability and this link is reflected in those projected cash-flows, then the discount rate to be used should be consistent with this assumption. The wording of paragraph 32 may need to be amended in order to clarify that the Board does not intend to introduce some "asset-backed rate" but wants only to impose some consistency between all the factors used to determine the current fulfilment cash-flows.

(b) Do you agree with the proposal to consider the effect of liquidity, and with the guidance on liquidity (see paragraphs 30(a), 31 and 34)? Why or why not?

Firstly, we believe that the determination of discount rate is a very important cross-cutting issue that the Board should analyse and finalise urgently in order to improve consistency across all the standards that use present values. Following this analysis it may appear that some different approaches could be permitted, but these conclusions will have to be justified and documented in each standard.

Concerning the very specific area of insurance, we believe that liabilities should be discounted using a current market rate consistent with the rate observed for assets that share the same features as the liabilities, including liquidity characteristics, but restated to exclude any non-performance risk.

(c) Some have expressed concerns that the proposed discount rate may misrepresent the economic substance of some long-duration insurance contracts. Are those concerns valid? Why or why not?

If they are valid, what approach do you suggest and why?

For example, should the Board reconsider its conclusion that the present value of the fulfilment cash flows should not reflect the risk of non-performance by the insurer?

We agree that the measurement of insurance contract should not reflect the risk of non-performance by the insurer and welcome this change from the previous requirements proposed in the DP.

In general we are opposed to the integration of a non-performance risk in liabilities that will never be transferred (please see our response to the ED on Fair Value & Credit Risk).

Question 4 – Risk adjustment versus composite margin (paragraphs BC105–BC115)

Do you support using a risk adjustment and a residual margin (as the IASB proposes), or do you prefer a single composite margin (as the FASB favours)? Please explain the reason(s) for your view.

We support the IASB's approach, which requires a separate risk adjustment and residual margin, as it is more transparent and therefore provides for the best understanding of the risk and uncertainty arising from insurance contracts.

In contrast to what we have said in the context of other non-contractual liabilities, we believe that taking into account a systematic and explicit risk adjustment is relevant in the insurance context because these adjustments are properly identified in the course of the pricing of the contract and thus more reliable.

Question 5 – Risk adjustment (paragraphs 35-37, B67-B103 and BC105–BC123)

(a) Do you agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected? Why or why not? If not, what alternatives do you suggest and why?

We agree that the risk adjustment should depict the maximum amount the insurer would rationally pay rather than the amount a market participant would charge, as was proposed in the Discussion Paper. This definition is consistent with a fulfilment-value model.

(b) Paragraph B73 limits the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation (CTE) and cost of capital techniques. Do you agree that these three techniques should be allowed, and no others? Why or why not? If not, what do you suggest and why?

Although we can see the arguments in favour of limiting the number of permitted techniques in order to enhance comparability, we are opposed to limiting the number of techniques allowed for estimating risk adjustments as we believe that the forthcoming standard should remain principle-based. This will present the additional advantage of facilitating the standard's status as a valid and sustainable reference.

The risk of limiting the permitted techniques is that it will make it difficult to adapt the standard to any evolution towards improved estimating techniques in the future.

The objective of comparability may be best served by a detailed and transparent description of the method and the most sensitive assumptions used in these estimates.

(c) Do you agree that if either the CTE or the cost of capital method is used, the insurer should disclose the confidence level to which the risk adjustment corresponds (see paragraph 90(b)(i))? Why or why not?

We disagree with its requirement. In our view, if the confidence level method is not relevant for measuring the risk adjustment (as acknowledged in paragraph B95 of the ED, a confidence-level technique is not appropriate for probability distributions that are highly skewed), it is also not relevant or appropriate for disclosures. Moreover, even if the use of such a technique could be appropriate, we wonder about the usefulness of such disclosures compared to the cost of implementation, as we expect that analyzing diverging confidence levels will turn out to be very difficult for users and comparability is thus likely to be limited.

(d) Do you agree that an insurer should measure the risk adjustment at a portfolio level of aggregation (ie a group of contracts that are subject to similar risks and managed together as a pool)? Why or why not? If not, what alternative do you recommend and why?

As said above in our response to Question 2, we believe that the primary level for measurement should be the portfolio level. Nonetheless, to determine the risk adjustment, it should be permitted to then consider diversification across portfolios up to the reporting entity level, as far as is consistent with the Business model of the insurer. In such cases, to be perfectly transparent, the effect of this diversification should be disclosed in the notes.

(e) Is the application guidance in Appendix B on risk adjustments at the right level of detail? Do you have any comments on the guidance?

The application guidance goes into too much detail about implementation.

The ED should be limited to general principles to meet the Board's intention to issue a principle-based standard. In this respect, the paragraphs B75 to B90, describing the characteristics of actuarial techniques, are not relevant in the application guidance of a financial reporting standard. These paragraphs should be transferred to the Basis for Conclusions.

Question 6 – Residual/composite margin (paragraphs 17(b), 19–21, 50–53 and BC124–BC133)

(a) Do you agree that an insurer should not recognise any gain at initial recognition of an insurance contract (such a gain arises when the expected present value of the future cash outflows plus the risk adjustment is less than the expected present value of the future cash inflows)? Why or why not?

We agree that no gain should be recognized at initial recognition because this reflects the Business model, which is to earn profit over the contract as the service is rendered to the customers, not at inception.

(b) Do you agree that the residual margin should not be less than zero, so that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss (such a loss arises when the expected present value of the future cash outflows plus the risk adjustment is more than the expected present value of future cash inflows)? Why or why not?

We also agree that a loss should be recognised at inception when the contract is onerous.

Please note that we consider that such an initial loss should be assessed only on a portfolio basis, to remain consistent with the Business model and thus with our previous comments relating to the unit of account.

(c) Do you agree that an insurer should estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period? Why or why not? If not, what do you recommend and why?

As said above in response to Questions 2 and 5, we believe that the level for measurement should generally be the portfolio level, including the risk adjustment and thus the residual margin.

We think that interpretation of the "similar inception date" and "similar coverage period" criteria may give rise to practical difficulties. Additional guidance may be required.

(d) Do you agree with the proposed method(s) of releasing the residual margin? Why or why not? If not, what do you suggest and why (see paragraphs 50 and BC125–BC129)?

We agree that the residual margin should be released in a systematic way that best reflects the exposure from contracts. That means, from our point view, that the margin should be released over the whole contract duration and not just the coverage period. The performance of insurers is judged against their management of the full economic life of each claim, even after the reimbursement to the insuree.

In this context, release on a linear basis will not be appropriate and the method should be modified in order to reflect properly the difference between the coverage period and the residual period of the contract.

However, we have strong concerns about the freezing of the initial residual margin while all remeasurements of the other components of the building blocks will be recognised immediately in net income. Such a model creates undue volatility in net income and is likely to produce misleading outcomes:

- Volatility in net income: as stated in our answer to Question 1, we believe that such volatility does not reflect the Business model of an insurer, which is precisely to minimize its exposure by managing its liabilities in concert with different assets. We have already suggested some alternatives in Question 1, based on a consistent treatment for the liabilities and assets involved in the Business model as a whole. Nonetheless, if the Board were to reject all of these alternatives, it should at least consider how to reduce the volatility arising from the liability side. This could be done either by using the OCI (with subsequent recycling) or using the residual margin as a "shock-absorber". This last alternative means that the residual margin will be adjusted over the whole of its release period for changes in the estimates of future cash-flows ;

- Misleading outcomes: if the residual margin is frozen at inception, then, in case of adverse changes in estimates, the insurer will recognize an immediate loss whereas future results will not be affected. We believe that future benefits should be adjusted when cost estimates have changed, in order to provide relevant information about the profitability of the whole contract, over all the period concerned.

(e) Do you agree with the proposed method(s) of releasing the composite margin, if the Board were to adopt the approach that includes such a margin (see the Appendix to the Basis for Conclusions)? Why or why not?

Even though we do not support FASB's composite margin approach, we find the method proposed in paragraph (a)(ii) of the Appendix to the basis for conclusions does offer some advantages, because it recognizes that the performance of the insurance contract covers not only the coverage period but also the whole contract period (see our answer to Question 6 (d))

(f) Do you agree that interest should be accreted on the residual margin (see paragraphs 51 and BC131–BC133)? Why or why not?

Would you reach the same conclusion for the composite margin? Why or why not?

We agree in principle with the accretion of interest on the residual margin because this margin is part of an overall measure, all components of which reflect the time value of money. However we have concerns about the practicability of doing this and wonder whether it is worthwhile on grounds of materiality

Question 7 – Acquisition costs (paragraphs 24, 39 and BC135–BC140)

Do you agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not? If not, what do you recommend and why?

We agree that acquisition costs should not be recognized as an immediate expense when they give rise to future benefits and are expected to be recovered. Consistently with this, we agree that a loss should be recognised at inception when the contract pricing is insufficient to recover these acquisition costs.

We also agree that such treatment should be limited to incremental costs in order to be able to identify them clearly and assess their recoverability. However, such incremental costs should be identified at the portfolio level and not at the individual contract level, as we believe that is the more relevant level for measurement.

Question 8 – Premium allocation approach

(a) Should the Board (i) require, (ii) permit but not require, or (iii) not introduce a modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts? Why or why not?

(b) Do you agree with the proposed criteria for requiring that approach and with how to apply that approach? Why or why not? If not, what do you suggest and why?

We understand the need for a simplified method for certain contracts. However, the simplified method should not be imposed but rather permitted or proposed as a proxy to obtain similar outcomes to the principal approach but in an easier way.

We consider this method to be only a proxy for the principal method. We therefore do not agree that it should lead to a different presentation in the face of the income statement as this would hinder comparability. Furthermore, if different presentation were allowed, that would mean it was a second accounting model and not just a proxy

Question 9 – Contract boundary principle

Do you agree with the proposed boundary principle and do you think insurers would be able to apply it consistently in practice? Why or why not? If not, what would you recommend and why?

We agree with the contract boundaries as defined in the exposure draft as we believe that insurance contracts encompass a bundle of rights and obligations arising from the initial agreement to cover an insuree in exchange for a price that reflects the initial assessment of this risk. When the insurer has the right or ability to reassess and modify this price in order to reflect changes in risk, we agree that this leads to a new contract.

Question 10 – Participating features

(a) *Do you agree that the measurement of insurance contracts should include participating benefits on an expected present value basis? Why or why not? If not, what do you recommend and why?*

We agree with the expected cash-flows basis.

(b) *Should financial instruments with discretionary participation features be within the scope of the IFRS on insurance contracts, or within the scope of the IASB's financial instruments standards? Why?*

We agree that all instruments with discretionary participation features should be within the scope of the IFRS on insurance contracts in order to provide some consistency in the accounting for the same instruments.

(c) *Do you agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity? Why or why not? If not, what do you recommend and why?*

We believe that all instruments with discretionary participation features (DPF) should be accounted for in the same way. We consider that measurement principles developed in the insurance standard should apply to financial instruments with DPF taken as a whole, without separating the financial component. We therefore disagree with the additional criteria relating to "the participation with insurance contract in the same pool of assets, company, fund or other entity".

(d) *Paragraphs 64 and 65 modify some measurement proposals to make them suitable for financial instruments with discretionary participation features. Do you agree with those modifications? Why or why not? If not, what would you propose and why? Are any other modifications needed for these contracts?*

Definition of contract boundaries

We find the proposed definition of the contract boundary for financial instruments with DPF in paragraph 64 clear and operational.

As stated in the ED, the definition of the contract boundary for insurance contracts, based on the insurer's exposure to providing insurance coverage, is unfit for instruments that do not bear any insurance risk. The DPF is an essential characteristic of these financial instruments. We assume that the instrument terminates when the policyholder loses rights to receive participation benefits as this event transforms the financial instrument into a significantly different one.

Release of residual margin

We agree that the residual margin on financial instruments with DPF cannot be released based on the exposure from providing insurance coverage.

However, we do not agree that it should be based on the fair value of assets under management, if that pattern differs significantly from the passage of time (paragraph 65). This driver assumes that all managed assets backing such contracts are measured at fair value. It may contradict the measurement of a large majority of an insurer's assets at amortised cost, mandated by the business model under IFRS 9. As noted in our cover letter and answer to Question 1, the insurance standard cannot be elaborated without consideration for all its interactions with IFRS 9.

We propose that paragraphs 65 (a) and (b) be deleted, therefore.

Question 11 – Definition and scope

(a) Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

We agree overall with the definition proposed but we have some doubt concerning the "loss test" as we think that may lead to the exclusion of some reinsurance contracts, because of the mutualisation of their risk across different contracts. We think that reinsurance is essentially the same activity as insurance, and that reinsurance contracts must be kept within the scope of this proposed standard.

To avoid any unintended consequences, we suggest that the Board maintain the existing definition in IFRS 4 that has worked well in practice and is widely understood and consistently implemented.

(b) Do you agree with the scope exclusions in paragraph 4? Why or why not? If not, what do you propose and why?

We agree that proposed requirements in this exposure draft are unsuitable for companies where insurance is not the main activity. We understand therefore the rationale for excluding some service contracts provided by manufacturers, dealers or retailers. Nonetheless, we think that the current criteria combined with the unbundling rules may lead insurers to account for some components of their insurance contracts outside the IFRS on insurance contracts and this outcome is not desirable. Perhaps the best way to deal with this issue is to be more precise in the scope exclusion and focus, as in the basis for conclusion (BC 209), on the main activity in which the reporting entity is engaged.

(c) Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

We acknowledge the effort made by Board to develop a broad principle that applies to all financial guarantee contracts. We also recognise that trade credit insurance meeting the definition of an insurance contract is within the scope of this ED. However this may not fit well with the economics some entities' business models. We therefore disagree with this proposal and suggest that the Board maintain the current option as stated in IFRS 4 paragraph 4 (d). Such an option would provide a consistent accounting framework for both insurers and financial establishments with which to measure the whole of their contracts on the same basis.

Question 12 – Unbundling

Do you think it is appropriate to unbundle some components of an insurance contract? Do you agree with the proposed criteria for when this is required? Why or why not? If not, what alternative do you recommend and why?

While we understand the need for some unbundling requirements, we are a bit more doubtful about the application guidance, which is not very clear and seems in places to contradict the main principle.

Our understanding of the main principle of this standard is that all cash-inflows and cash-outflows arising from a contract should be combined in the same measurement whether these cash-flows are generated by an insurance, financial or service component.

Thus, we understand that unbundling is only an exception whose objective is to prevent some abuse and improve financial information in some very limited circumstances.

As already said in our response to the exposure draft on Revenue Recognition, we believe that the unbundling of contracts should be based upon the Business model. If an insurer does not manage a contract in different components, the contract should be considered as a single unit and not be subject to segregation. Users would benefit from such valuable insight in the way insurers manage their business and products.

If the Board requires frequent unbundling of components, we expect that in most cases both preparers and users will have to face prohibitive costs and inextricable complexities for both initial and ongoing implementation:

- The additional costs include notably major system changes and internal as well as external training expenses to adapt to the new requirements.
- The complexities encompass the initial identification of all possible components amongst existing contracts and unresolved technical issues, such as the allocation of premiums and expenses, including acquisition costs, to each component.

In our view, these costs and complexities exceed by far the very limited use, if any, to investors of separate measurement and presentation of components. Indeed, a single transaction with a customer would not be presented as a bundle of rights and obligations but as separate and apparently independent pieces. Further, if the investment component is measured under IFRS 9, including a deposit floor, the valuation of the remaining cash flows within the insurance component would have little or no sense, aggregating as it would participation benefits, guaranteed minimum benefits and fees and expenses.

In addition, we consider that the most common examples of components to unbundle, quoted in paragraph 8, do not belong in a principle-based standard. More application guidance may be provided, describing for different types for contracts when unbundling is appropriate or not.

Question 13 – Presentation

(a) *Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?*

We agree that the summarised margin presentation provides useful information to investors and it is consistent with the building block approach required for the measurement of liabilities. Users also expressed their need for volume information such as premiums, claims and expenses. We concur with the Board's decision that this information should be disclosed in the notes.

However, we understand that such a presentation might not be relevant for non-life insurance for which a traditional presentation may be more useful; we thus suggest to the Board to consider further this question in order to provide an alternative for a single model valid and relevant for all contracts.

As noted in our answer to question 8, we do not recommend a specific presentation for short-duration contracts. The modified approach is a proxy for the general measurement approach. Separate presentation for short-term contracts would impair comparability and have users believe that it represents a distinct model.

(b) *Do agree that an insurer should present all income and expense arising from insurance contracts in profit or loss? Why or why not? If not, what do you recommend and why?*

Please refer to our answer to Question 1, dealing with accounting mismatches and one of the alternatives proposed, i.e. to use OCI to recognise changes in estimates in the first instance.

Question 14 – Disclosures

(a) *Do you agree with the proposed disclosure principle? Why or why not? If not, what would you recommend, and why?*

We agree with the general objectives proposed and note their consistency with the objectives and principles stated in other new or amended standards.

Nonetheless, as we share the view expressed in BC 242 that this principle should avoid any detailed and prescriptive disclosures requirements, we do not understand why disclosures mentioned in paragraph 85 to 97 appear to be mandatory and not only suggested in order to help insurer to satisfy the overall objectives.

(b) *Do you think the proposed disclosure requirements will meet the proposed objective? Why or why not?*

We believe the proposed disclosures meet the proposed objective as long as the overall volume of disclosures and level of details do not obscure the information conveyed, and that these disclosures are adapted to the particular facts and circumstances of the entity and its business.

In this respect, we believe that the condition mentioned in paragraph 81 along which useful information is not “obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics” should be a principle for disclosures as a whole and not only for the level of aggregation as is currently the case in paragraph 81.

(c) Are there any disclosures that have not been proposed that would be useful (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful.

Paragraph 80 allows for additional disclosures should the disclosures required in the standard not meet the objective exposed in paragraph 79 in certain situations.

This catch-all requirement makes the detailed list of requirements in paragraphs 86 to 90 and 92 to 97 redundant. The detailed list should be transferred to the application guidance, as examples of information often deemed useful under the particular facts and circumstances, rather than constituting piecemeal and sometimes inappropriate requirements.

Question 15 – Unit-linked contracts

Do you agree with the proposals on unit-linked contracts? Why or why not? If not what do you recommend and why?

We welcome the proposed pragmatic approach to address the accounting mismatch: We agree that the proposal properly addresses the mismatches resulting from own shares and owner-occupied property held to back unit-linked contracts. We would welcome a similar approach for own debt in order to provide relevant presentation on the face of the statement of financial position. Elimination of debt issued by the group as a consolidation entry against unit-linked assets may generate a presentation asymmetry between unit-linked assets reset to zero and uneliminated unit-linked liabilities.

We also support the presentation of assets and liabilities as well as income and expenses related to unit-linked contracts as separate line items in the statement of financial position and statement of net income. Separate presentation provides users with appropriate insight into this specific line of business.

However, we find that combining the requirements on unbundling and those on the separate presentation of unit-linked contracts is confusing. If unbundling requirements apply to these unit-linked contracts, we fail to see the rationale behind having specific requirements on presentation in the insurance standard for contracts which fall in the scope of the financial instrument standard.

Further, some contracts allow policy-holders to switch between their unit-linked and participating contract components. If the unit-linked component is to be unbundled, switches may disrupt continuity in the accounting treatment of a single contract and generate inappropriate experience adjustments on the participating contract component.

We ask the Board to clarify these issues so that the proposals on unit-linked contracts provide meaningful accounting treatment and are operational.

Question 16 – Reinsurance

(a) Do you support an expected loss model for reinsurance assets? Why or why not? If not, what do you recommend and why?

(b) Do you have any other comments on the reinsurance proposals?

We have no specific comment to add.

Question 17 – Transition and effective date

(a) Do you agree with the proposed transition requirements? Why or why not? If not, what would you recommend and why?

We strongly disagree with the proposed transition requirements as they lead to the resetting at zero of the residual margin for all insurance contracts existing at the transition date.

However, we agree that it would be quite difficult, if not impossible, to recreate the residual margin in accordance with new requirements for all existing contracts. We suggest, therefore, to the extent that the full retrospective application is not practicable, that the approach proposed by the staff be retained, that is, to determine a margin (to be presented separately from the residual margin) on transition as the difference between the carrying amount of the liability immediately before transition, and the present value of the fulfilment cash-flows at that date. This difference should be limited to zero (that is, not recognised as a negative amount).

It may be not an ideal solution but we think it is better than a model that would prevent insurers from reporting their whole performance over the periods following the introduction of the new standard.

Finally, we note that the Board is concerned that, under the alternative model, the resulting residual margins will not be comparable with the residual margins for subsequent contracts. We do not agree, as we do not think that these margins would be any more comparable if they were reduced to zero.

(b) If the Board were to adopt the composite margin approach favoured by the FASB, would you agree with the FASB's tentative decision on transition (see the appendix to the Basis for Conclusions)?

(c) Is it necessary for the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9? Why or why not?

As said in our response to question 1, we believe that is essential that the effective dates of both IFRSs are aligned because, in the insurers' Business model, liabilities are not dissociated from assets and the accounting provisions should perfectly reflect this link.

In order to avoid any undue accounting mismatches, we believe that IFRS 9 should be amended or at the very least (i.e. if IFRS 9 is not changed), insurers should have the opportunity to reclassify their assets in both directions (from fair value to cost or cost to fair value) once the accounting model for liabilities has been finalised.

(d) Please provide an estimate of how long insurers would require to adopt the proposed requirements.

Question 18 – Other comments

Do you have any other comments on the proposals in the exposure draft?

Given the breadth of the untested changes and interactions between this ED and other standards, it is difficult to envisage all the impacts of the proposals on financial reporting. We recommend that comprehensive and in-depth field tests be performed that include effects of this proposal and other pending proposals to evaluate the consistency of the resulting financial reporting.

In particular, we prompt the Board to test how the revised proposals will interact over time so as to:

- Assess the effectiveness of the model in providing a faithful presentation of performance and of the financial position, in relation to the business model.
- Evaluate whether the proposals are operational.

Question 19 – Benefits and costs

Do you agree with the Board's assessment of the benefits and costs of the proposed accounting for insurance contracts? Why or why not? If feasible, please estimate the benefits and costs associated with the proposals.

In our view, the costs of the proposed accounting for insurance contracts will far exceed the expected benefits for the reasons detailed in this letter. The most urgent issues to be addressed to balance the cost/benefit ratio are the following:

- Eliminate undue volatility in the statement of net income, as this does not reflect the performance of the business.
- Incorporate into the measurement model the matching of assets and liabilities inherent in the business model.
- Develop a revised transition method that does not generate major disruption in performance reporting.