Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

7 November 2013

Dear Kevin

Re: AASB ED 244 *Insurance Contracts* and ED 255 *Agriculture: Bearer Plants*

I am enclosing a copy of PricewaterhouseCooopers' responses to the International Accounting Standards Board's exposure drafts

- ED/2013/7 *Insurance Contracts* and
- ED/2013/8 *Agriculture: Bearer Plants*.

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment

We are not aware of any regulatory or other issues that could affect the implementation of the proposals in either exposure draft by not-for-profit and public sector entities.

Subject to our concerns about specific matters as expressed in our submissions to the IASB, we believe the proposals would result in financial statements that would be useful to users. Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

Reduced disclosure requirements for insurance contracts

As explained in our previous submission on ED 201, we generally agree with the AASB's approach of not specifying Tier 2 disclosures for insurance contracts, based on the assumption that entities with material insurance activities would generally be publicly accountable. However, this does not have to be the case. For example, a captive insurer who is a wholly-owned subsidiaries without external stakeholders would not normally be publicly accountable.

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Power 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 S ydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Under the current differential reporting regime, these entities can reduce their disclosure burden by preparing special purpose financial reports. However, should the Board decide in the future to change the application focus of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements', all entities with insurance contracts would be required to apply the proposed insurance contracts disclosures regardless of whether they are publicly accountable or not, and whether users of the financial statements would require this kind of information. This would be an additional burden for entities such as captive insurers.

We therefore recommend that the Board reviews the application of the proposed disclosures to non-publicly accountable insurers using the Tier 2 Disclosure Principles should the reporting entity concept be revised at a future point in time.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 4664 if you would like to discuss our comments further.

Yours sincerely,

Paul Brunner
Partner, PricewaterhouseCoopers

pwc

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

25 October 2013

Dear Sir/Madam,

Revised Exposure Draft – Insurance Contracts

We are pleased to respond to the invitation by the IASB (the 'Board') to comment on behalf of PricewaterhouseCoopers on the revised Exposure Draft, Insurance Contracts. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms who commented on the revised Exposure Draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We commend the Board on its progress on the project towards issuing a comprehensive standard on insurance accounting. We re-emphasise that the development of a comprehensive standard for insurance contracts is essential because the transitional arrangements established in IFRS 4 do not provide the level of transparency and comparability necessary for the users of financial statements.

We recognise the efforts the Board has made in jointly re-deliberating its decisions with the Financial Accounting Standards Board ('FASB'). While there are differences in views between the Boards, we continue to support the development of a global converged standard for insurance contracts and urge the Board to keep working with the FASB to achieve this goal. However, given the lack of consistent accounting for insurance contracts outside of the United States of America, if timely convergence cannot be achieved with the FASB we urge the Board to finalise its insurance contracts standard once it has finished its re-deliberations and further testing has been completed.

Overall, we continue to support the proposed use of a measurement model for all insurance contracts that portrays a current assessment of the amount, timing and uncertainty of the future cash flows that the insurer expects its existing insurance contracts to generate. We appreciate the efforts of the Board in addressing the concerns expressed in the comment letters to the 2010 Exposure Draft. Nevertheless, there are a number of areas where we believe the proposed standard could be further improved. In particular, we believe the accounting for contracts with discretionary participation in underlying items requires an alternative solution to that described in the revised Exposure Draft.

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

We appreciate the difficulty in developing a measurement approach that works for all contracts that have a link to underlying items. The revised Exposure Draft introduces an alternative approach for contracts that require the entity to hold underlying items and which specify a link between the payments to the policyholder and the returns on the underlying items. However, there are some types of contracts where these requirements may not be met as there is not a legal requirement to hold

PricewaterhouseCoopers International Limited, 1 Embankment Place, London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652

specific assets. We agree that the proposal in the revised Exposure Draft for the accounting for contracts that require an entity to hold underlying items and specify a link to the returns on those underlying items is appropriate for unit-linked contracts (also referred to as 'variable contracts'). However, we believe an alternative approach that does not require the decomposition of cash flows should be developed for discretionary participating contracts. We believe that such an alternative approach should be based upon the building block model to maintain a consistent measurement for all other insurance contracts using a current fulfilment value.

If the accounting for these discretionary participating contracts does not decompose the cash flows, the challenge is to determine the discount rate to be applied. This choice will affect how the options and guarantees prevalent within these contracts are valued. Where these options and guarantees are linked to market variables, they should be measured using these market variables and by considering a full range of scenarios. The final standard should be clear whether these options and guarantees are valued on a 'risk neutral' or 'real world' basis, as discussed further in our response to question 2. We also believe that changes in the value of options and guarantees should be recognised against the contractual service margin (unless the contract is onerous) for all contracts, regardless of whether the contracts include terms that result in payments that are contractually linked to returns on underlying items.

Interest expense in profit or loss

IFRS 9 has a mixed measurement model for the recognition of debt instruments, either at fair value through profit or loss, at fair value through other comprehensive income ('OCI') or at amortised cost. These latter two categories would recognise interest in profit or loss on a historic amortised cost basis. This is in contrast with IAS 37 'Provisions, contingent liabilities and contingent assets' where changes in discount rates are recognised in profit or loss using a current rate.

Given the mixed measurement model in IFRS 9 and the treatment in IAS 37, we do not believe that recognising changes in discount rates in OCI would provide relevant information in all circumstances. Many insurers hold assets supporting insurance contracts that will not be measured at fair value through OCI or amortised cost. For example, when assets supporting insurance contracts are recognised in profit or loss, we believe it would then be more appropriate to recognise changes in discount rates related to those insurance contracts in profit or loss. We therefore suggest that entities should be able to make an irrevocable choice at transition or on inception of a portfolio whether changes in discount rates in measuring insurance contract liabilities are recognised within the interest margin in profit of loss or in OCI.

Adjusting the contractual service margin

We agree that financial statements will provide relevant information if the differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services (excluding those that are due to changes in discount rates) are recognised against the contractual service margin. This will include changes in options and other cash flows that are expected to vary with returns on the underlying items (hereafter referred to as 'guarantees'), with the exception of mirrored cash flows of unit-linked contracts. This is subject to the condition that the contractual service margin should not be negative.

We believe that changes in the risk adjustment related to future coverage and other future services should also be recognised against the contractual service margin. We believe that recognising the changes in the risk adjustment for future coverage and other future services against the contractual service margin is conceptually consistent with adjusting the contractual service margin for changes in estimates of future cash flows, so that the contractual service margin is a measure of unearned profit.

We support the amortisation of the contractual service margin in profit or loss over the coverage period in a systematic way that best reflects the provision of services under the contract. However, while we support a principles-based standard, we are concerned that without further guidance there will be significant diversity in the patterns used to amortise the contractual service margin, even for similar contracts, because there is subjectivity in determining the underlying services that drive the amortisation. We suggest introducing a rebuttable presumption to amortise the contractual service margin using a straight line pattern after reflecting contract terminations, subject to guidance being provided as to when rebutting the straight-line pattern would be appropriate.

Presentation of insurance contracts revenue and expenses

We support the notion of revenue and expenses being recognised for insurance contracts, which is broadly consistent with the accounting for revenue in other industries. However, we recognise that there are significant concerns around the revenue measure in the revised Exposure Draft. In particular, there are concerns with both the difficulty in explaining to users movements in revenue as a result of multiple drivers and the operational complexities in disaggregating non-distinct investment components in many insurance contracts.

While on balance we support the definition of insurance contract revenue in a period as set out in the revised Exposure Draft, we recommend the Board continues to work with preparers and users during its re-deliberations to determine whether the inclusion of revenue and expenses in the statement of comprehensive income will provide useful information.

Effective date and transition

We agree with the simplifications for transition in the proposed standard as we believe these provide a pragmatic approach to transition for the different building blocks within the measurement model.

As stated in our response letter to the limited amendments to IFRS 9: classification and measurement, reflecting the economic linkage between assets and liabilities is fundamental to how the insurers' business is managed as well as how it is analysed by users. For insurers, the difference in timing between the new insurance contracts standard and IFRS 9 will inevitably cause challenges, as it appears that there may be a lag between the effective date of IFRS 9 and the completion date of the insurance contracts standard. While insurance entities could adopt IFRS 9 based on the existing standard for insurance liabilities (or based on their expectation of the direction the insurance proposals will take), in reality that linkage between the assets and liabilities is so intertwined that the accounting for financial assets will need to be revised once the new accounting model for insurance contracts is introduced. Accordingly, we suggest a practical solution to allow entities that issue insurance contracts a second opportunity to revisit the decisions in adoption of IFRS 9 when the final insurance standard becomes effective.

Although not part of the five key areas for re-exposure, as noted in our response to the previous ED, we believe the standard should allow for optional separation of interdependent account balances in insurance contracts that are not distinct. This will enable, for example, loans that are waived on death to be separated into the underlying loan and the insurance element.

We commend the Board for its efforts to carry out an extensive outreach programme in the comment period. However, given the complexity of the proposed standard, we believe preparers will need more time to fully test the proposals on a range of products. We urge the Board to continue working closely with the industry after the comment period in its re-deliberations to understand the implications of any amendments to the proposals. We also recommend that once the Board has finalised its re-deliberations, a review draft of the final standard be made available to provide sufficient time to allow preparers to perform detailed field tests of the proposals and resolve any material issues identified during the Board's re-deliberation process.

We have elaborated on the issues stated above in the Appendix together with a number of other areas where we believe the proposed standard can be improved. We believe that if the concerns noted above are addressed, the proposed model will provide a reliable source of data and useful information for users of the financial statements and be a significant improvement to the current accounting for insurance contracts.

If you have any questions, please contact John Hitchins, PwC Global Chief Accountant (+44 207 804 2497) or Gail Tucker, PwC Global Financial Instruments Leader (+44 117 923 4230).

Yours sincerely

PricewaterhouseCoopers

PricewaterhouseCoopers

pwc

Appendix

Question 1 - Adjusting the contractual service margin

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if differences between the current and previous estimates of the present value of future cash flows if:

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

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

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

We agree that financial statements will provide relevant information if the differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services are recognised against the contractual service margin ('CSM'), subject to the condition that the CSM should not be negative.

However, we are not clear which changes in cash flows have to be recognised against the contractual service margin, which are recognised in profit or loss and which are recognised in OCI. As currently written, the revised Exposure Draft is unclear with regard to the recognition of asset management charges for unit-linked contracts. Paragraph B68(d) notes that changes in estimates of cash flows that depend on investment returns, if those changes arise as a result of changes in the value of the underlying items, should not be recognised against the CSM. In contrast, according to paragraph B68(e) changes in cash flows relating to asset management services are an example of future services that would be adjusted against the CSM. In addition, paragraph 66(b) states that all changes in indirectly linked cash flows should be recognised in profit or loss. We believe that the Board should clarify that changes in asset management charges that are not unbundled and are based on changes in the underlying assets should be recognised against the CSM (except for changes attributable to changes in discount rates) as the asset management activity is a future service. Changes attributable to changes in discount rates should be recognised in OCI or in profit or loss based on the alternative that is chosen, as discussed in our response to question 4 below.

Another example would be changes in a guaranteed minimum death benefit, where changes in the liability may arise from changes in demographic assumptions, investment returns or discount rates. It is not clear which changes relate to future and past services and so which would be recognised against the contractual service margin. We believe all changes in fixed cash flows and options and guarantees should be treated according to the building block model that recognises them in OCI, profit or loss or against the CSM, depending on their characteristics. We believe more guidance and illustrative examples should be provided in the final standard to clarify past and future services.

In addition, we believe that changes in the risk adjustment related to future coverage periods and other future services should be recognised against the CSM. Recognising the changes in the risk adjustment related to future coverage periods and other services against the CSM is conceptually consistent with adjusting the CSM for changes in cash flows, so that it is a better measure of unearned profit in a contract. We understand that preparers of financial statements in some territories are able to allocate changes in the risk adjustment between changes related to incurred claims, other changes related to expiry of risk and changes related to future coverage and other future services. However, we recommend the Board works closely with preparers to assess whether this approach is fully operational.

We believe that the CSM should be reinstated if assumptions change for contracts that are onerous at inception or contracts that become onerous during the life of the contract and subsequently become profitable. We note that the requirement to reinstate the CSM is not clearly described within the proposed standard, although BCA 143 implies that this is the Board's intention, at least for contracts that subsequently become onerous. The proposed standard should also specify whether losses recognised in profit or loss relating to unfavourable changes in the present value of future cash flows for future coverage and other services are subsequently reversed through profit or loss to the extent that there are subsequent favourable changes in those cash flows or whether the subsequent favourable changes are all recognised as a change to the CSM. We believe favourable changes in fulfilment cash flows after a contract becomes onerous should be recognised in profit and loss as those favourable developments occur until previously recognised losses in excess of the CSM have been recouped and then used to re-establish a CSM. When the contract becomes profitable again, the CSM should reflect the remaining unearned profit expected on the contract as if it had been profitable during the entire life of the contract (that is including the amortisation of the margin to date).

We support the amortisation of the CSM in profit or loss over the coverage period in a systematic way that best reflects the provision of services under the contract. However, while we support a principles-based standard, we are concerned that without further guidance there will be significant diversity in the patterns used to amortise the contractual service margin, even for similar contracts This can be seen in some territories where a principle similar to that included in the revised Exposure Draft has been implemented and the resulting diversity in accounting for the amortisation of the CSM is evident. For some long-term insurance contracts the amortisation of the CSM will be a primary determinant of profit recognition and so such diversity is a significant concern. This diversity may arise as a result of the lack of clarity as to what 'services' the CSM covers. BC32 implies that the CSM is viewed as the profit that is recognised as the entity provides coverage and other services. We suggest clarifying which services are covered by the CSM to assist preparers in determining the proper release pattern. For example, some may say the transfer of service could be the reduction in the net amount at risk under a life insurance contract which would result in an earlier recognition of profits. Others see the service as a stand ready obligation which could result in a relatively level pattern of profits, whereas assigning the service as expected benefits could result in profits being recognised later in the coverage period.

We suggest introducing a rebuttable presumption to amortise the contractual service margin using a straight line pattern after reflecting contract terminations, subject to guidance being provided on when rebutting the straight-line pattern would be appropriate. A straight line pattern would represent the stand ready obligation to incur claims throughout the coverage period. Rebutting the straight-line pattern could, for example, be allowed for products where the amount of maximum coverage varies throughout the product life. This, for example, could apply to decreasing term insurance where the death benefit decreases at a predetermined rate over the life of the policy. We believe that such a rebuttable presumption of a straight-line pattern would achieve more consistency in profit recognition among entities and be easier for users to understand.

In its discussions on participating contracts the Board concluded that the realisation of investment gains or losses and the payment or declaration of policyholder bonuses are not reflective of the services transferred under a participating insurance contract. As a minimum, the standard should include this guidance in clarifying the services that are provided under such contracts.

We also believe the final standard should be clear that newly written loss making contracts cannot be amalgamated with previously written profitable business. Therefore, we believe that the final standard should explicitly require that the CSM be calculated for contracts within a portfolio by similar date of inception. We also note that, if the OCI solution is retained, paragraph BCA 113 already indicates that in practice, entities may have to account for the CSM at a lower level of aggregation than the portfolio, for example by contracts that have similar inception dates and coverage periods. We believe a lower level than the portfolio will be necessary, given that interest accretes on the CSM using the rate from inception of the contract; as a result the standard should make this clear to avoid confusion. We believe that as a consequence, the requirements for the onerous contract test under the building block model (paragraph 15), as well as under the simplified approach (paragraph 36), should be amended to also be at the level of contracts within a portfolio by similar date of inception.

Question 2 - Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items

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

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

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

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

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

ii. **changes in the fulfilment cash flows that are expected to vary indirectly with the returns on the underlying items would be recognised in profit or loss; and**

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

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

We appreciate the difficulty in developing a measurement approach that works for all contracts that have a link to underlying items. The revised Exposure Draft introduces an alternative approach for contracts that require the entity to hold underlying items and which specify a link between the payments to the policyholder and the returns on the underlying items. There are some contracts where these requirements may not be met as there is not a legal requirement to hold assets. While the alternative approach, with an amended scope, may work for unit-linked contracts, we believe the proposal in the revised Exposure Draft is not appropriate for contracts where the cash outflows to policyholders have a significant linkage to the returns on underlying items, but there is discretion over the sharing of these returns (hereafter referred to as 'discretionary participating contracts') as set out below.

Unit Linked contracts

We agree that the proposal in the revised Exposure Draft for the accounting for contracts that require an entity to hold underlying items and specify a link to the returns on those underlying items is appropriate for unit-linked contracts, subject to our comments below on accounting for options and guarantees. Therefore, we suggest amending the scope of this approach to contracts for which some or all of the benefits are determined by the price of units in an internal or external investment fund (that is a specified pool of assets held by the insurer or a third party and operated in a manner similar to a mutual fund) as laid out in the previous Exposure Draft. In addition we believe it should be clarified that such contracts should stipulate that the returns on assets, other than specified fees, should be passed directly on to the policyholder in their entirety. In some jurisdictions these contracts are referred to as variable contracts but we refer to these hereafter as 'unit-linked contracts'.

Unit-linked contracts have a separate account balance and do not have discretionary participation, which significantly decreases the complexity of decomposing the cash flows into components that are expected to vary directly with returns of underlying items and those that are not expected to vary directly with returns of underlying items (fixed cash flows and embedded options and guarantees). However, we note that the current treatment of asset management charges for unit linked contracts is unclear in the revised Exposure Draft as discussed in our response to question 1.

Discretionary participating contracts

In discretionary participating contracts (such as Continental European participating contracts, UK With Profit contracts and Universal Life contracts), management has some discretion over when and how much it allocates to policyholders in each year of the contract and often these contracts do not have separate account balances. As a result, when compared to unit-linked contracts, these contracts have an inconsistent degree of asset dependency over the life of the contract, which complicates the decomposing of cash flows.

In many discretionary participating contracts policyholders receive returns based upon income from sources in addition to investment returns, such as mortality gains. While in some contracts losses from one source can be offset with surpluses from another source, in other contracts such netting is prohibited. For discretionary participating contracts, the proposed model in paragraphs 33 and 34 of the revised Exposure Draft does not adequately reflect these different product characteristics. For example, in a single premium whole life contract which solely participates in the returns from underlying bonds, the return on these bonds will cover future benefits and expense outflows. Conceptually, we do not believe that the variable cash flows can be measured by mirroring the carrying value of the underlying bonds when the returns on these bonds also support cash flows that relate to, for example, fixed components that are decomposed and separately accounted for under paragraphs 33 and 34. This would not apply to unit-linked contracts, as the invested assets relating to the units are separated from the explicit charges that are deducted from the account balance.

Furthermore, paragraph B86 of the revised Exposure Draft prescribes the decomposition of the cash flows in a way that maximises the extent to which the cash flows vary with returns on underlying items in order to eliminate accounting mismatches. In our view such a split is arbitrary for discretionary participating contracts. For these contracts, the prescribed decomposition does not reflect the economics of the contract and results in the recognition of an option or guarantee that is not consistent with that included in the pricing of the option or guarantee component and how the contract is managed. Many preparers economically view the options and guarantees in discretionary participating contracts as described in paragraph B86(a). However, this decomposition does not give any directly varying cash flows, which can be measured by reference to the carrying amount of the underlying items. Therefore, such an approach would not reduce accounting volatility. In contrast, for typical unit-linked contracts, current regulatory and accounting practice requires the decomposing of cash flows in the way that paragraph B86(b) describes. Because unit-linked contracts have a 100% participation in the increase in the fair value of underlying assets, in our view, applying the simplified example in paragraph B86 results in the same outcome for both B86(b) and B86(c). Therefore, the prescribed decomposition effectively aligns with how the options and guarantees are economically viewed in unit-linked contracts.

We believe an alternative approach should be developed for discretionary participating contracts, where there is a significant link to the returns on underlying items. We believe that the alternative approach should be based upon the building block model to maintain a consistent measurement approach for all insurance contracts using a current fulfilment value. Discretionary participating contracts often include a number of interrelated guarantees and management actions that can be taken to reduce the effect of these guarantees in certain scenarios. We therefore believe that the alternative model should not require the decomposing of cash flows.

Options and guarantees

We believe that options and guarantees should be recognised and measured on a current basis, regardless of whether contracts have terms that lead payments to be contractually linked to returns on underlying items. As the proposed building block model requires a probability weighting of all cash flows, both fixed and guaranteed, including those linked to market variables we believe all such cash flows should be measured using market variables, where relevant, and by considering a full range of scenarios. Because of the non-symmetric distribution of outcomes, the measurement of options and guarantees will in many cases involve stochastic modelling or using a deterministic model, run multiple times, to reflect a range of scenarios. A single deterministic approach omits valuing the scenarios where the investment return is less than the guarantee. We believe the final standard should give examples illustrating when modelling a single deterministic outcome is not appropriate. We note that for certain simple options and guarantees a formula (such as Black Scholes) may exist which could be equivalent to stochastic modelling.

We believe changes in the value of options and guarantees in all insurance contracts should be recognised against the contractual service margin (unless the contract is onerous), as these options and guarantees largely represent future services and coverage to be provided under the contract, except for changes attributable to discount rates. Conceptually, we believe changes related to discount rates should be recognised in OCI or in profit or loss based on the alternative that is chosen, as discussed in our response to question 4. We urge the Board to work with preparers to ensure that the use of a locked-in discount rate provides useful information where the valuation of options and guarantees is based on stochastic or similar techniques. We believe that all changes in options and guarantees should be recognised against the CSM if the changes due to interest rates cannot be separately identified or do not provide meaningful information for users.

We recognise that to the extent entities economically hedge their options and guarantees, an accounting mismatch will arise, as changes in the value of the hedging instruments will be recognised in profit or loss. Therefore, we urge the Board to develop a solution that will avoid introducing an accounting mismatch for entities that economically hedge options and guarantees.

If different valuation techniques are adopted for between fixed cash flows and guarantees, then we believe the distinction between fixed cash flows and guarantees is unclear in the revised Exposure Draft for discretionary participating contracts. For example, some view a guaranteed minimum death benefit (that is, the greater of a fixed amount and the account balance) as a fixed cash flow, whereas others view it as a guarantee as discussed in our response to question 1.

One of the key challenges for discretionary participating contracts is how options and guarantees should be measured. The basis for conclusions in BC61(b) seems to imply that a market-consistent approach should be applied. We view there to be a risk of significant diversity in the market related inputs that might be used as a consequence of the revised Exposure Draft. Some entities believe this implies that options and guarantees should be valued on a 'real world' basis, while others believe that a 'risk neutral' approach should be adopted. Both approaches begin with current market values at the balance sheet date and apply these to a range of scenarios, but the main difference is the inputs that are included in the models. This is relevant for inputs such as the discount rate and the investment return cash flows, which have a significant impact on the measurement of options and guarantees.

A real world basis considers multiple possible economic scenarios based upon the historic performance of an asset class. However, in order to do so, significant subjectivity can be involved (particularly for equity instruments and real estate), which may reduce the comparability between entities due to differences in the application of this experience. Using a real world valuation approach to derive the time value of options and guarantees generally assumes that certain asset classes will outperform fixed income asset classes. Further, some argue that this approach is inappropriate, as it is likely in most cases, to result in a lower value of the option or guarantee than the cost of hedging the obligation at the balance sheet date.

In a risk-neutral market-consistent model[1], the asset related cash flows in the liability are measured by using observable information at the balance sheet date, which is consistent with the concept of a replicating portfolio and derivative pricing techniques. Some argue that the measurement of the options and guarantees in this way does not reflect the nature of the contract, which stipulates a linkage between assets and liabilities and introduces short-term volatility. In addition, some argue that the risk-neutral approach may not reflect the effect of policyholder behaviour assumptions based on historical patterns in various economic scenarios. Nevertheless, its advantage is valuations are more comparable between entities, as they would be based on market observable data at the balance sheet date and in this model, the option or guarantee is measured consistently with the cost of hedging the obligation at the balance sheet date.

Discount rate

As noted above we believe that the model for discretionary participating contracts should be based upon the building block model without requiring the decomposition of cash flows. This implies that the discount rate will be applied to the contract as a whole. For the directly varying cash flows in the contracts, projecting investment returns and discounting them at the same rates would result in the same outcome as under the proposed model in the revised Exposure Draft.

If asset-based discount rates are applied to the cash flows in discretionary participating contracts as a whole, this will result in the fixed cash flows being discounted at an asset-based rate. In addition, options and guarantees will be valued on a 'real world' basis, with the implications described above.

An alternative would be to apply the liability based discount rate that is used in the building block model for all cash flows, which has the advantage that the fixed cash flows will be discounted at a rate that reflects the characteristics of the liability. Under this alternative, options and guarantees would be valued on a risk neutral basis, with the implications described above. The use of a liability based discount rate would result in interest expense being recognised at the liability-based rate, while the effective interest on assets held at fair value through OCI would be at the higher asset-based rate, which creates an accounting mismatch in the income statement. As a result, where OCI is used, the use of the liability-based discount rate will not reflect the fact that cash outflows depend on the return on the underlying items.

Contractual Service Margin

We believe changes in cash flows attributable to the shareholders ('shareholders' component') in discretionary participating contracts should be recognised against the CSM. Recognising the shareholders' component against the CSM is consistent with how the CSM is recognised at inception of the contract. We appreciate that there are arguments for and against recognising the shareholders' component against the CSM. However, we believe this is one of the compromises that will be necessary to obtain support for the standard in certain key territories.

[1] By the term 'risk-neutral market-consistent' model and 'risk neutral basis', we include other actuarial techniques that provide an equivalent market consistent assessment, for example, a 'real world / deflator' method. We note that a 'real world / deflator' method is not the same as the real world basis discussed above.

We refer to our response to question 1 for our concerns regarding the release of the CSM in profit or loss according to realisation of investment gains or losses and payment or declaration of policyholder bonuses, as we do not believe these are reflective of the services provided.

Summary

We agree that the proposal in the revised Exposure Draft for the accounting for contracts that require an entity to hold underlying items and specify a link to the returns on those underlying items is appropriate for 'unit-linked contracts', subject to our comments above on recognising changes in options and guarantees. However, we believe the proposal in the revised Exposure Draft is not appropriate for contracts where the cash outflows to policyholders have a significant linkage to the returns on underlying items, but there is discretion over the sharing of these returns. We have assessed a number of approaches for these discretionary participating contracts in our deliberations. We believe an alternative should be developed based on the building block model without decomposing of cash flows. The final standard should make it clear whether indirectly varying cash flows are modelled on a real world or risk neutral basis, as this could have a significant effect on the measurement of some contracts. If both alternatives are permitted then disclosures should be included to explain the valuation methods used. We urge the Board to work with preparers and users to develop an approach for accounting for discretionary participating contracts that is operational and provides meaningful information to the users of financial statements.

Question 3 - Presentation of insurance contract revenue and expenses

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial performance if, for all insurance contracts, an entity presents, in profit or loss, insurance contract revenue and expenses, rather than information about the changes in the components of the insurance contracts?

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

We support the notion of revenue and expenses being recognised for insurance contracts that is broadly consistent with the accounting in other industries. However, we recognise that there are significant concerns around the revenue measure in the proposed standard. In particular, the operational complexities in disaggregating non-distinct investment components and the difficulty in explaining to users movements in revenue as a result of multiple drivers (estimated claims and expenses, the change in the risk adjustment, and the amortisation of the contractual service margin).

While on balance we support the definition of insurance contract revenue in a period as set out in the revised Exposure Draft, we recommend that the Board continues to work with preparers and users during its re-deliberations to determine whether the inclusion of revenue and expenses in the statement of comprehensive income will provide useful information.

Additionally, we are unclear how revenue and expenses will be recognised for insurance contracts and assumed reinsurance contracts that provide coverage for past events. It is unclear what the definition of an 'incurred' claim is for these contracts, given that they cover the uncertainty around the ultimate settlement amount and not the occurrence of claims. We believe the proposed presentation of insurance contracts revenue and expenses should be clarified for these contracts. We also refer to similar issues for contracts with liabilities in the settlement period that are acquired through portfolio transfers as explained in our response to question 6.

Question 4 - Interest expense in profit or loss

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

- **recognising, in profit or loss, the interest expense determined using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows; and**
- **recognising, in other comprehensive income, the difference between:**
    - **i. the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date; and**
    - **ii. the carrying amount of the insurance contract measured using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows?**

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

IFRS 9 has a mixed measurement model for the recognition of debt instruments, either at fair value through profit or loss, at fair value through OCI or at amortised cost. The latter two categories recognise interest in profit or loss on a historic amortised cost basis. This is in contrast with IAS 37 'Provisions, contingent liabilities and contingent assets' where changes in discount rates are recognised in profit or loss using a current rate.

Some see insurance contracts as more akin to financial instruments and so would recognise changes in discount rates in OCI, while others see more of an analogy to a non-financial provision and so would recognise changes in profit or loss.

Given the mixed measurement model in IFRS 9 and the treatment in IAS 37, we do not believe that recognising changes in discount rates in OCI would provide relevant information in all circumstances. Many insurers hold assets supporting insurance contracts that cannot be measured at fair value through OCI or amortised cost. For example, for assets supporting insurance contracts whose changes in fair value are recognised in profit or loss, we believe it is more appropriate to recognise changes in discount rates related to those insurance contracts in profit or loss. We therefore suggest that entities should be able to make an irrevocable choice at transition or on inception of a portfolio whether changes in discount rates in measuring insurance contract liabilities are recognised within the interest margin in profit of loss or in OCI.

We believe that if an entity elects to recognise changes in discount rates in profit or loss, the accretion of interest on the CSM should be based on the current discount rate.

For discretionary participating contracts, we believe that the characteristics of the contracts should be reflected in the interest expense recognised in profit or loss. For example, some contracts have a variable rate nature with similar economic features to borrowings with floating rate interest payments. Because those payments vary with changes in interest rates, portraying the interest expense as if it resulted from fixed rate financing would be inconsistent with the objective of recognizing in other comprehensive income changes that reverse when the contract is settled. We note that some entities would prefer to split discretionary participating contracts into a matched and unmatched period to reflect the duration mismatches in profit or loss. Although we understand the merits of this approach, we believe that such a split may be difficult to apply in practice for all discretionary participating contracts at the portfolio level, particularly when underlying assets are not debt instruments.

Question 5 - Effective date and transition

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

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

We agree that the proposed approach to transition appropriately balances comparability with verifiability. We acknowledge that the simplifications for the building blocks may not provide a conceptually pure answer and that the simplification for estimating the risk adjustment will, for many contracts, result in an overstatement of the CSM on transition. However, we agree with the simplifications in the proposed standard as we believe they provide a pragmatic approach to transition for the different building blocks.

The CSM on transition is required to be calculated at the portfolio level. We believe that the CSM on transition should be allocated on a systematic and reasonable basis to contracts in a portfolio by similar date of inception for the purpose of subsequent amortisation to be consistent with our response to question 1 above.

As stated in our response letter to the limited amendments to IFRS 9: classification and measurement, reflecting the economic linkage between assets and liabilities is fundamental to how the business of insurers is managed, as well as how it is analysed by users. For insurers, the difference in timing between the new insurance contracts standard and IFRS 9 will inevitably cause challenges as it appears that there may be a lag between the effective date of IFRS 9 and the completion date of the insurance standard. While insurance entities could adopt IFRS 9 based on the existing standard for insurance liabilities (or based on their expectation of the direction the insurance proposals will take), in reality that linkage between the assets and liabilities is so intertwined that the accounting for financial assets will need to be revised once the new accounting model for insurance contracts is introduced. Accordingly, we suggest a practical solution to allow entities that issue insurance contracts a second opportunity to revisit the decisions in adoption of IFRS 9 when the final insurance standard becomes effective. This will allow for a more holistic view of how the entity issuing insurance contracts manages its business and will provide enhanced information to users of the financial statements.

We commend the Board for its efforts to carry out an extensive outreach programme. However, given the complexity of the proposed standard, we believe preparers will need more time to fully test the proposals on a range of products. We urge the Board to continue working closely with preparers after the comment period in its re-deliberations to understand the implications of any amendments to the proposals. We also recommend that once the Board has finalised its re-deliberations, a review draft of the final standard is made available for sufficient time to allow preparers to further field test the proposals.

Many territories are planning to or already transitioning to IFRS. Entities in these territories and other entities that will have to apply the proposed insurance contracts standard for the first-time may find it useful to apply the implementation guidance that is currently available in IFRS 4. Therefore, we believe the applicable implementation guidance in current IFRS 4 should be carried forward to the final standard.

Question 6 - The likely effects of a Standard for insurance contracts

Considering the proposed Standard as a whole, do you think that the costs of complying with the proposed requirements are justified by the benefits that the information will provide? How are those costs and benefits affected by the proposals in Questions 1–5? How do the costs and benefits compare with any alternative approach that you propose and with the proposals in the 2010 Exposure Draft?

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

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

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

Overall, we believe that the costs of complying with the proposed requirements are justified by the benefits that the information will provide. Entities transitioning to the final standard may incur significant costs to comply with the new requirements. However, we believe the need for a comprehensive standard for the accounting for insurance contracts outweighs these costs.

We believe that the proposals in the revised Exposure Draft, including an alternative proposal for discretionary participating contracts based on the principles set out in our response to question 2, will provide significantly more transparency and comparability for users of financial statements of entities issuing insurance contracts. We re-emphasise that the development of a comprehensive standard for insurance contracts is essential because the transitional arrangements established in IFRS 4 do not provide the level of transparency and comparability necessary for the users of financial statements. We also believe that our proposal to provide entities an irrevocable choice at transition or on inception of a portfolio to recognise changes in discount rates within the interest margin in profit of loss or directly in OCI will be less costly and complex to apply than the current proposals in the revised Exposure Draft.

In response to the comments received on the 2010 Exposure Draft, the Board has made a number of significant changes to the requirements. We believe that many of these changes are justified to address concerns about perceived 'artificial' volatility. However, we have listed below some of our concerns with topics in addition to the five key areas for re-exposure, where we believe the standard should be improved.

Definition, scope and combining contracts

Paragraph 8 of the revised Exposure Draft indicates that two or more insurance contracts that are entered into at or near the same time with the same policyholder (or related policyholders) have to be accounted for as a single insurance contract when one of three criteria is met. As stated in our response to the 2010 Exposure Draft, there is currently diversity in practice when accounting for fronting arrangements. We believe the requirements in the revised Exposure Draft regarding combining of insurance contracts are insufficient to address the accounting for such fronting arrangements. These arrangements come in many forms, but diversity particularly arises where an operating entity within a consolidated group transfers risk through insurance to an independent insurer and this insurer passes the risk back to a captive insurer in the same consolidated group as the operating entity. The ED states that an entity shall combine two or more insurance contracts that are entered into with the 'same policyholder (or related policyholders)'. However, in this case, the operating entity is acting as policyholder and the captive insurer is acting as insurer, and thus the reference to 'same or related policyholders' will not encompass these contracts. Therefore, we suggest replacing 'policyholder' with 'counterparty' as this would address the accounting for these arrangements.

The proposed standard on Revenue from Contracts with Customers explicitly scopes out insurance contracts. However this standard has principal/agent guidance that would be useful to consider in the context of fronting arrangements. For example, some arrangements pass on 100% of the insurance risk from an entity to an insurer. Subsequently, the insurer passes 100% of the risk on to a reinsurer. The agreement stipulates that the insurer does not have to pay claims from the entity unless recoveries are received from the reinsurer (known as a 'pay-as-paid' clause). We believe that these contracts should be recognised on a net basis if the conclusion is reached that the insurer is an agent. We believe that an assessment based on principal/agent guidance tailored for insurance contracts could be useful to determine the accounting treatment for these agreements.

Separating components from an insurance contract

As stated in our cover letter, we support the optional separation of interdependent account balances in insurance contracts that are not distinct. This will enable, for example, loans that are waived on death to be separated into the underlying loan and the insurance element.

Risk adjustment

As stated in our previous comment letter, we do not support disclosure of confidence level information as a 'comparable benchmark', as this could be misleading when the pattern of claims is a skewed distribution. We are not convinced that the benefit of producing this information exceeds the cost of producing it. If any other method is used for measuring the liability, a significant amount of work will be required (that is, a total rerun of the valuation model) to convert the risk adjustment as determined by these other methods to a corresponding confidence level. We do agree that disclosures about the risk adjustment technique used should be given, including a roll-forward, the objective and inputs and parameters used in the technique. Insurers should disclose information about the risk adjustment that will help users of financial statements understand and make their own judgements about the maximum amount the insurer would be willing to pay to be relieved of the risk and why the amount of the entity's risk adjustment is consistent with the objective for a risk adjustment.

Premium allocation approach/Simplified approach

Paragraph 38 states how entities that apply the simplified approach should measure the liability for remaining coverage. The initial recognition may take into account acquisition costs and any pre-coverage cash flows. However, it is not clear how any acquisition costs and pre-coverage cash flows get removed from the pre-coverage liability given that revenue is stated to be 'the amount of the expected premium receipts allocated in the period'. We recommend that the Board include a similar approach to that included for the building block model in paragraph B90(d).

Reinsurance

As stated in our response letter to the 2010 Exposure Draft, in risks attaching ceded reinsurance, where risks are assumed for contracts written in the next year, the reinsurance contract may not be eligible for the simplified approach. In contrast, each of the direct insurance contracts being reinsured might be eligible for the simplified approach. We believe it would be appropriate to apply the simplified approach to the reinsurance contract held for the cedant if all of the insurance contracts that are reinsured qualify for the simplified approach.

Business combinations and portfolio transfers

IFRS 3 states that an insurance contract should be classified on the basis of contractual terms existing at inception of the contract. We believe the Board should clarify whether this classification only includes the assessment of the transfer of significant insurance risk or also the classification as a contract under the premium allocation approach ('PAA') or the building block model. Illustrative example 10A explains that a CSM has to be recognised if the consideration received for an assumed portfolio of insurance contracts exceeds the fulfilment cash flows for that portfolio. It is unclear how a CSM would be set-up in a contract acquired in a business combination when the contract qualifies as PAA after the business combination as this approach does not identify this building block separately.

We believe the requirements are unclear as to whether an insurance contract in its settlement period that is acquired through a portfolio transfer should be treated as the remainder of a pre-existing contract that is in its post coverage period or as a new insurance contract which is at the beginning of its coverage period. In the latter case, the insured event would be the discovery of the ultimate cost of those claims and a CSM would be set-up in accordance with paragraph 18(b) and 28. However, if the contract is treated as a pre-existing contract, a CSM cannot be recognised as the contract is in its settlement period. We believe contracts acquired in a portfolio transfer are akin to acquiring new insurance contracts and therefore should be re-assessed at the acquisition date to determine whether they transfer significant insurance risk and qualify for the PAA or building block model. We note that some insurance contracts that qualified as PAA before the portfolio transfer may not qualify for PAA after the acquisition. We believe that contracts acquired in a portfolio transfer should be treated as new insurance contracts when they are acquired in the settlement period. For these contracts the insured event is the discovery of the ultimate cost of those claims noted in paragraph B5. We believe that this implies that these contracts have a coverage period that ends upon the discovery of the ultimate cost of those claims. We believe the final standard should be clear on the coverage period for insurance contracts that cover events that have already occurred but whose financial effect is still uncertain.

Question 7 - Clarity of drafting

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

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

We have some concerns with the clarity of drafting in the proposed standard. We have listed below these concerns organised by topic:

Cash flows

Paragraph B66(k) notes that payments arising from existing contracts that provide policyholders with a share in the returns on underlying items are included in the fulfilment cash flows, regardless of whether those payments are made to current or future policyholders. A literal reading of this paragraph may imply that if these 'existing contracts' terminate or lapse, any amounts arising from those contracts but expected to be paid out to future policyholders would be recognised in equity. Subsequently these amounts would have to be recognised in the insurance contract liability when new contracts are initiated. We do not believe this was the Board's intention. We suggest amending paragraph B66(k) by including a reference to 'existing and prior contracts' to clarify that these expected cash flows should be included in insurance contract measurement regardless of whether they arise from current or past contracts.

Paragraph B66(c) explains which acquisition costs should be included in the fulfilment cash flows. In addition, B66(l) explains the types of overhead costs that are to be included in the fulfilment cash flows, which would seem to apply to all fulfilment cash flows (for example, claim adjustment and maintenance expenses as well as acquisition costs). We suggest clarifying to what extent overhead costs relating to acquisition are included in the fulfilment cash flows, for example, rent for a building occupied by in-house sales force, or application software relating to commission payment processing.

Contract boundary

We are unclear whether the wording on the contract boundary in paragraph 23(b)(ii) is intended to be restricted to the 'portfolio', as defined in the proposed standard. In many cases, the right to re-price exists at a different level than the portfolio and is often subject to external regulatory constraints. We believe the proposed requirements are too restrictive and we suggest removing the reference to the 'portfolio of insurance contracts' and instead refer to a group of contracts.

Discount rate

We support the Board's decision to allow a top-down as well as a bottom-up approach in determining the discount rate to reflect the time value of money of the cash flows of the insurance contract. The requirements for the top-down approach in paragraph B70(a)(iii) indicate that while there may be remaining differences between the liquidity characteristics of the insurance contract and the liquidity characteristics of the assets in the portfolio, an entity applying the top-down approach need not make adjustments to eliminate these differences. However, the example in paragraph B74(a) states that a 'market premium for liquidity' has to be eliminated from the total bond yield. These paragraphs seem contradictory and therefore we suggest deleting the reference to market premium for liquidity.

Paragraph B72 implies that the discount rate curves for cash flows that are not expected to vary with returns on underlying items should be the same for all liabilities in a given currency. This discount rate would be represented by an illiquid risk-free curve. In particular, we are unclear whether different illiquidity adjustments have to be applied to different contracts and also whether all cash flows within one contract should have the same illiquidity adjustment. We suggest clarifying this in the final standard.

Contractual service margin

Paragraph 30 in the proposed standard refers to the 'the remaining amount of the contractual service margin', which could be interpreted as requiring that the CSM cannot exceed the CSM initially booked, which we believe is not the Board's intention. We suggest removing the reference to 'the remaining amount'.

The same paragraph refers to a 'difference between the current and previous estimates of the present values of future cash flows'. We believe the final standard should be clear that this difference has to be calculated at the locked in discount rate, rather than the current discount rate, unless our alternative to recognise changes in discount rates in profit or loss is applied. Also, BC33 states that there is no change in the measurement of the liability as a whole. However, if the liability is re-measured at the current rate but the CSM is re-measured at the locked in rate, then we would expect a change to the liability as a whole.

Reinsurance

We believe that the Board should define the term 'aggregate losses' because it is unclear, for example, if a proportional reinsurance contract with a cap qualifies as a reinsurance contract that covers aggregate losses or as a proportional reinsurance contract.

Paragraph 73 refers to reconciliations 'separately for insurance contracts and reinsurance contracts'. We suggest clarifying that the reconciliations have to be provided for 'insurance contracts issued' and 'reinsurance contracts held' to make clear that separate reconciliations do not have to be provided for insurance and reinsurance contracts issued.

BCA 134 states that 'for reinsurance contracts held in the pre-coverage period, a cedant should recognise a reinsurance asset at the expected present value of any expected recoveries related to underlying contracts for which it has recognised an onerous contract liability'. We believe this requirement should also be reflected in the main body of the final standard.

Investment contracts with discretionary participating features

Paragraph 47(c) refers to 'asset management or other services under the contract'. The second sentence in this paragraph only refers to 'asset management services'. We recommend that these references be made consistent.

We are unclear whether contracts without insurance risk that permit switching between funds with and without discretionary participating features are in scope of the proposed standard. We recommend the Board clarify whether these contracts are in scope or not if at initial recognition there is no or limited investment in a participating fund. In addition, paragraph B25 states that a contract that meets the definition of an insurance contract remains an insurance contract until all rights and obligations are extinguished (i.e. discharged, cancelled or expired), unless the contract is derecognised in accordance with paragraph 49(a). It would be helpful to clarify that this paragraph applies to contracts that allow switching between funds with and without discretionary participating features.

Business combinations and portfolio transfers

Paragraph 61 states that 'for contracts that were acquired in a business combination or a portfolio transfer, the discount rates at initial recognition that are used to measure the interest expense recognised in profit or loss are the discount rates that applied at the acquisition date.' We believe that this is already covered by paragraph 43 and therefore we suggest removing paragraph 61.

Modification and derecognition of an insurance contracts

We are unclear as to why paragraph 52 contains separate requirements for an issuer of reinsurance contracts, whereas this does not apply elsewhere in the proposed standard. We suggest aligning the requirements for issuers of insurance and reinsurance contracts.

Disclosure

Paragraph 80 requires that if the entity discloses the fair value of underlying items that are measured on a basis other than fair value, it shall disclose the extent to which the difference between the fair value and the carrying amount of the underlying items would be passed on to policyholders. We believe that this disclosure requirement does not provide relevant information, as the mirroring approach, if retained, only applies to those cash flows where there is no scenario of economic mismatches for the entity. Therefore, the entire difference will always be passed on to the policyholder.

Paragraph 82 states that an entity shall disclose the interest on insurance contracts in a way that highlights the relationship between the interest on the insurance contracts and the investment return on the related assets that an entity holds. We believe this paragraph should be clarified to state that the disclosure requirement only applies for contracts where the mirroring approach does not apply, if this approach is retained.

As stated in our response to question 6, we do not support the confidence level disclosure. However, if it is retained, we suggest clarifying in paragraph 84 that the confidence level disclosure is also required when a confidence level technique is used for calculating the risk adjustment.

If retained, we also suggest clarifying whether the disclosure of the confidence level is required gross or net of reinsurance or both. This also applies to the disclosure requirement in paragraph 90 related to the claims development tables. We believe the Board should clarify that these disclosures should be provided gross of reinsurance.

Transition

Paragraph C6(c) and (d) refer to a period of three years before the date of transition for estimating the discount rate. We had understood that the Board's intention was for this to be a period of three years before the effective date, rather than the date of transition.

We believe that the words 'historical observable data from the date of initial recognition' in paragraph BC170(b)(iii) should be replaced with 'historical observable data from at least three years before the date of transition' in order to be consistent with the requirement set out in paragraph C6(c) and (d) as currently drafted. However, if our proposed changes to C6(c) and (d) are made as stated above; these words should instead be replaced with 'historical observable data from at least three years before the effective date'.

Consequential amendments to IFRS 1

We note that the amendments to IFRS 1 in Appendix D do not include a requirement for derecognition of deferred acquisition costs which is prescribed in the transition requirements in Appendix C. We believe the Board should clarify that deferred acquisition costs are derecognised upon first-time adoption of IFRS.