ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

January 15, 2009

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

Dear Sir

Re: IAA comments on the Exposure Draft *Investments in Debt Instruments*

In response to the request for comments on the Exposure Draft *Investments in Debt Instruments* (the ED), I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Committee on Insurance Accounting of the IAA. If, upon reading these comments, you identify any points that you wish to pursue, please do not hesitate to contact the chairperson of that committee, Sam Gutterman, or any of the other members of the committee. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Yves Guérard
Secretary General

Attachment: IAA comments

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A Commentary on the
EXPOSURE DRAFT ON INVESTMENTS IN DEBT INSTRUMENTS
PROPOSED AMENDMENTS TO IFRS 7
ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD: DECEMBER 2008

International Actuarial Association

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-two Full Member actuarial associations represent more than 95% of all actuaries practicing around the world and are listed in an Appendix to these comments. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

IAA Commentary

The IAA appreciates the opportunity to provide comments on this IASB exposure draft. These comments have been prepared by the Committee on Insurance Accounting. Our comments are written from the perspective of actuaries involved in financial reporting for insurers around the world, with an emphasis on measurement of insurance liabilities, financial instruments, and related financial contracts. Statements in this letter reflect the collective experience of the actuaries who participated in the preparation of this comment letter, experience that we believe represents an accurate and fairly comprehensive view of the actuarial profession globally. The members of the committee are listed in an Appendix to these comments. This letter has been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA's web site.

The following paragraphs present our general comments regarding the DP, which in turn are followed by our responses to the specific questions posed in the DP.

Effective, but not necessarily more disclosure relating to debt and other financial instruments provides very important public information. We appreciate the efforts of the IASB to refine its standards to enhance disclosures in this area. We believe that, conceptually, the areas identified for additional information are important and, in general, we would err on the side of risk transparency. Nevertheless, we have significant reservations regarding the appropriateness of the proposed amendment to IFRS 7 at this time.

Although we do not disagree with the comments made at the IASB/FASB roundtables that additional disaggregated information would be useful in many cases, particularly with respect to available for sale (AFS) debt instruments, we do not believe that the proposed disclosures meet the objectives of preparers and users who suggested that changes are required to the basis of impairment accounting for AFS debt securities. Applying the current AFS impairment model can lead to the recognition of losses relating to liquidity spreads where companies have no intention of disposing of the assets. We believe that consistency should be sought in the

approach to accounting for impairment for all financial assets. The proposed disclosures do not address these concerns and are likely to be confusing and have unintended consequences that will obscure the Board's stated objective of providing information to users about disaggregation of impairment losses.

Prior to introducing such mandatory disclosure we believe that the IASB (together with the FASB) should decide upon measurement principles first, which we understand is a project for 2009. Rather than requiring these additional disclosures as a stop-gap measure, which may well become redundant if the impairment measurement model is revised, we believe that the ultimate objective should be addressed urgently.

In that regard, we also refer to the discussion on reducing complexity in IAS39, in which the Board proposed to have fair value as the single measurement basis (with some exceptions). We do not understand how an expansion of disclosures on measurement models that the Board proposes to remove would represent meaningful information. We also note that the suggested expanded disclosures seem to conflict with the aim to reduce complexity.

We believe that the proposed Exposure Draft goes beyond that which would be found useful at the current time. A more limited requirement for impaired AFS debt instruments that disaggregates the incurred loss portion beginning for periods after December 31, 2009 would be reasonable, with early adoption encouraged.

We also note potential unintended consequences of the proposed profit disclosures. Presenting a pro-forma profit figure as if all investments in debt securities had been classified as financial assets at fair value through profit or loss would be misleading since, for example for insurers in most jurisdictions, it disregards the effect on the corresponding liabilities of fair value movements of assets. Many insurers have made accounting policy choices to mitigate, as far as possible, accounting mismatches; hence a single-sided adjustment would give a misleading view of the overall profit and loss impact.

In addition, we believe that some preparers would find it difficult, if not impossible to implement such a standard at year-end 2008, since most preparers are already working on them. For example, some insurers may find it difficult to measure the net profit/loss effect of alternative measurement approaches in their shadow adjustments and tax provisions. In addition, the proposed pre-tax profit/loss disclosures would have to be prepared on the assumption that, if an entity had classified all debt instruments on the basis of fair value through profit or loss, it is likely that it would have adopted different hedge accounting strategies or different measurement bases if applied to insurance contract liabilities.

Nevertheless, in pursuing enhanced risk transparency, we urge the IASB to revisit this aspect of disclosures after having evaluated measurement techniques in this area.

Comments regarding specific questions

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as a fair value through profit or loss) had been (i) classified as fair value through profit or loss and (ii) accounted for at amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

> **IAA Comment:** We do not support the implementation of the ED's proposal. As mentioned in our general comments above, the information proposed goes beyond the information requested by participants at the recent roundtables regarding debt instruments classified as AFS, and in fact does not address the suggestions made at the roundtables. For example, the alternative valuation of these instruments may have been accompanied by different hedge accounting strategies; as a result, the alternative values, though possibly theoretically interesting, would not be realistic. In addition, it is not obvious, based on current standards, how contracts such as investment contracts with a discretionary participation feature or insurance contracts, would be reflected.
>
> We believe that it will be desirable to consider these or related disclosure requirements or guidance in order to promote enhanced transparency, after (or as) measurement is considered in the near future on a normal due process basis.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions?

Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

> **IAA Comment:** As we have mentioned, development of meaningful alternative scenarios should be well-thought out and may not be easily prepared. The alternatives should be internally consistent and provide meaningful (and comparable) information. Reconciliations would be appropriate between alternative scenarios presented in disclosures.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

> **IAA Comment:** No, we do not agree. Note that currently IFRS 7 requires disclosure of fair value by class of financial asset. The disclosure proposed in paragraph 30A(b) would additionally require amortized cost for AFS debt instruments since it aggregates the

amortized cost of both impaired and non-impaired AFS debt instruments. We do, however, encourage the IASB, together with the FASB, to address accounting all aspects of impairment of financial assets.

Question 4
The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.

Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

IAA Comment: While we agree with the concerns indicated in BC6, we believe that additional disclosures should not be employed in an attempt to fix deficiencies in an accounting measurement model for insurance business.

Question 5
Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

IAA Comment: Based on the current scope of this ED, we believe that the proposed requirement to be effective for this calendar year-end is too ambitious and in fact not workable in the timeframe proposed, since the proposed pro forma profit/loss amounts may be quite complex to calculate. This is due to the many aspects that would have to be considered, including hedge accounting, foreign exchange movements, and interest accruals. Either parallel systems or alternative runs that may not have been anticipated would be required. In these days of control requirements, this may be onerous to accomplish in the timeframe available, especially for global entities and for entities who will have already published their financial statements in January. At the very least, a change to be effective for periods beginning after December 31, 2008 should be considered.

Question 6
Are the transition requirements appropriate? If not, why? What would you propose instead,, and why?

IAA Comment: Given the timeframe provided, we would agree that comparative information should not be required in the first year of application.

Appendix A

Members of the IAA Committee on Insurance Accounting

Sam Gutterman	Chairperson
David Congram	Co-Vice-Chairperson
Francis Ruygt	Co-Vice-Chairperson
Gunn Albertsen	Den Norske Aktuarforening
Yutaka Amino	Institute of Actuaries of Japan
Victor Hugo Cesar Bagnati	Instituto Brasileiro de Atuária (IBA)
Daniel N. Barron	Israel Association of Actuaries
Ralph Sumner Blanchard III	Casualty Actuarial Society
Guy Castagnoli	Association Suisse des Actuaires
Antonella Chiricosta	Istituto Italiano degli Attuari
David Congram	Canadian Institute of Actuaries
Alexander Dollhopf	Svenska Aktuarieföreningen
Guillermo Ezcurra Lopez De La Garma	Instituto de Actuarios Españoles
Mark J Freedman	Society of Actuaries
Kavassery S. Gopalakrishnan	Institute of Actuaries of India
Rokas Gylys	Lietuvos aktuariju draugija
William C. Hines	American Academy of Actuaries
Armand Maurice Ibo	Institut des Actuaires de Côte d'Ivoire
Dragica Jankovic	Udru enje Aktuara Srbije
Burton D Jay	Conference of Consulting Actuaries
Jelica Klucovska	Slovenska Spolocnost Aktuarov
Ad Kok	Het Actuarieel Genootschap
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Kurt Lambrechts	Association Royale des Actuaires Belges
Yin Lawn	Actuarial Institute of Chinese Taipei
Kristine Lomanovska	Latvijas Aktuaru Asociacija
Brian Joseph Morrissey	Society of Actuaries in Ireland
Andreja Radic	Hrvatsko Aktuarsko Drustvo
Nithiarani Rajasingham	Singapore Actuarial Society
Thomas Ringsted	Den Danske Aktuarforening
Matthew Christopher Saker	Faculty of Actuaries
Jaanus Sibul	Eesti Aktuaaride Liit
Dieter Silbernagel	Deutsche Aktuarvereinigung e.V. (DAV)
Pentti Soininen	Suomen Aktuaariyhdistys
Bjarni Thórdarson	Félag Islenskra Tryggingastærðfræðinga
Charles Vincensini	Institut des Actuaires
Peter Andrew Withey	Actuarial Society of South Africa
Derek John Wright	Institute of Actuaries
Jana Zelinkova	Ceská Spolecnost Aktuárù
Jesús Alfonso Zúñiga San Martin	Colegio Nacional de Actuarios A.C.

Appendix B

Full Member Associations of the IAA

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Institut des Actuaires de Côte d'Ivoire (Côte D`Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Ceská Spolecnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e.V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuariju Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaires (Morocco)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuariuszy (Poland)

Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Russian Guild of Actuaries (Russia)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)