



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

November 5, 2007

International Valuation Standards Committee  
12 Great George Street  
Parliament Square  
London SW1P 3AD  
United Kingdom

Dear Sir

**Re: IAA comments on the IVSC Discussion Paper on the Determination of Fair Value of Intangible Assets for IFRS Reporting Purposes**

In response to the invitation to comment on the above Discussion Paper, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations. We are pleased that the IVSC has undertaken to promote a discussion of this important valuation subject.

These comments have been prepared by a task force of 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. We would be pleased to elaborate on any of these comments or work with the IVSC in the future on items of common interest.

Yours sincerely,

Yves Guérard  
Secretary General

Attachment: IAA comments

**A Commentary on the  
DISCUSSION PAPER ON THE DETERMINATION OF  
FAIR VALUE OF INTANGIBLE ASSETS FOR IFRS REPORTING PURPOSES  
Released by the International Valuation Standards Committee: July 2007**

**INTERNATIONAL ACTUARIAL ASSOCIATION**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty-seven 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. The IAA appreciates the opportunity to provide comments on this IVSC discussion paper.

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 contract liabilities and reinsurance assets and incorporating some elements of the measurement of intangibles assets, particularly as they relate to business combinations involving insurance companies. Statements in this letter with respect to industry practices reflect the collective experience of the actuaries who participated in the preparation of this comment letter and we believe it represents an accurate and fairly comprehensive view of the insurance industry globally. The members of the committee are listed in an Appendix to this statement. It has also been subjected 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.

**GENERAL COMMENTS**

**Support for a standard on fair value measurement of intangible assets**

We support the issuance of guidance on valuation of intangible assets for IFRS reporting purposes. Such guidance should prove to be of use to preparers of financial statements. By promoting rigorous compliance with the accounting standards, it should also increase the confidence of users of financial statements in their reliability.

Although we applaud its effort, as indicated in 1.2.5, the IASB does not yet have a standard on fair value measurements. In fact, it currently has in its various standards several different applications of, and guidance for, fair values. For example, in some cases it attaches more of an entry value rather than an exit value perspective. Therefore, we recommend that the IVSC consider either deferring the finalization of this proposed standard until it is clear what direction the IASB is taking or finalizing it with the realization that it may be appropriate to consider a revision thereto if necessary when the IASB does finalize its fair value measurements standard.

**Current applications of fair value measurement of intangibles by insurers**

A significant amount of our experience relates to the financial reporting of insurance and investment contracts issued by insurers. Current application of fair value measurements to these contracts includes situations involving business combinations and portfolio transfers.

The accounting for business combinations often requires the identification and valuation of intangible assets that must be recognised and measured at fair value. Actuaries are often involved in this process, particularly as they relate to intangible assets associated with insurance company infrastructures, distribution systems or agency relationships as well as new business (contracts to be issued in the future).

### **Our comments for your consideration**

We offer the following comments for your consideration. They are not specifically responsive to any of the specific questions asked in the Discussion Paper, and so we present them as general comments.

The Discussion Paper refers to the process of identifying intangible assets that may require recognition and measurement, but offers little guidance relating to that process. We believe the Discussion Paper should clarify that its guidance is focused on valuation and that the process of identifying intangible assets is not within its scope if, indeed, this is its intent. Because one characteristic of an intangible asset that should be recognised is its reliable measurability, we would prefer that the guidance discuss how the valuer can conclude whether or not the asset can be measured reliably.

In Section VII *Comparison of different approaches and proposed hierarchy for selection of valuation methods*, the Discussion Paper offers a hierarchy of methods based on the reliability of these methods and types of inputs, but this guidance does not extend to the situation when the valuer is concerned that there is insufficient appropriate data upon which to base a reliable estimate of value. We believe that a valuer should not feel compelled to value an asset because it has been identified; rather, the valuer should participate in determining whether the asset is in fact recognizable.

We believe that the Discussion Paper would be improved if it were made clear which sections provide background information, definitions or other descriptive information and which sections describe tentative guidance. As we read them, Section V *Intangible Asset Valuation Methods* and Section VI *Determination and Benchmarking of Valuation Inputs* provide guidance.

The sections preceding these provide scope and background information, although Section IV *Key Standard Affected* appears, at times, to provide some elucidation of IFRSs that can be interpreted as guidance on how the IFRSs must be construed.

Section VII supplements the guidance in Sections V and VI by comparing approaches and provides guidance in the form of a valuation hierarchy. Section VII places the guidance in the context of a valuation project. It does not seem to require that the process be followed, but it does require documentation if it is followed.

Section VIII notes that the valuer may have relied on others for this determination. However, it does not seem to require the valuer to challenge the conclusion regarding the recognition of an asset; neither does it require that the valuer conclude that all material intangible assets have been identified.

Overall, some of the discussion in the paper appears to be a discussion of current IFRSs (or lack thereof) rather than standards for various approaches to be applied in following them. We suggest that, since a large part of the Discussion Paper is devoted to a discussion of existing methods, it should indicate that other acceptable methods may be developed in the future. Since we prefer principle-based rather than specific technique oriented standards, guidance for specific methods may more appropriately be included in an appendix rather than be incorporated in the body of a standard.

We are specifically concerned about the possibility of duplication of recognition of intangibles assets. In our experience, actuaries are sometimes asked to value the existing distribution capability of an insurer by placing a value on the business that is expected to be generated by this distribution system during the foreseeable future. The actuary sometimes learns at a later date that a separate valuation of agency relationships has been performed. It is often the case that these two assets are not independent of each other and that the sum of the value of the assets overstates the total value because there has been double-counting of the same future business. This possibility and the need to avoid duplication of recognition of assets might be discussed along with the topic of aggregation of assets because, in this case, the actuary may have aggregated the asset that was measured separately elsewhere in the entity.

Although somewhat different, we note that active and inactive intangible assets are addressed, while observable and nonobservable intangible assets are not. The two categories share enough common characteristics that both sets of characteristics should be discussed.

Section V *Intangible Asset Valuation Methods* presents possible valuation approaches and discusses how to decide which approach is most appropriate for a particular purpose. We note that it is usually impractical to develop guidance that anticipates all situations and presents all possible valuation methods. This section would benefit from inclusion of some discussion of the possibility that the valuer may develop that an approach different from the approaches described and, in that circumstance, what must be done, if anything, to remain in compliance with the standard.

We note the indicated need of the valuer to be "neutral, that is, free from bias" (5.7.3), at the same time that he or she is "prudent" (5.7.4). It would be helpful for the paper to discuss how it is possible to satisfy both of these principles in the same valuation.

As well, some fair valuations must incorporate an adjustment for risk, but we note that the Discussion Paper does not address this matter.

## Appendix A

### Members of the IAA Insurance Accounting Committee

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Bjarni Thórdarson	Félag Islenskra Tryggingastærðfræðinga
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Peter Withey	Actuarial Society of South Africa
Derek Wright	Institute of Actuaries
Jesús Zúñiga San Martin	Colegio Nacional de Actuarios A.C.

### **Full Member Associations of the IAA**

Asociación 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 Actuaire Belges (Belgique)  
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Bulgarian Actuarial Society (Bulgaria)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
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