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Dear Dave

FRC Response to the IAA's Draft Statement of Intent to issue an International Standard of Actuarial Practice – Actuarial Services in relation to IFRS X Insurance Contracts (ISAP [4])

The Financial Reporting Council's (FRC) mission is to promote high quality corporate governance and reporting to foster investment. To achieve our mission we work to promote high standards in accounting, auditing and actuarial practice; our work therefore includes setting UK financial reporting, auditing and actuarial standards. We are uniquely placed to consider how actuarial standards can support the needs of users of the financial statements of insurers for decision useful financial information.

1 Do you agree an ISAP is needed on actuarial services in relation to IFRS X

No.

The IAA suggests that there are three reasons for a model standard on actuarial services in relation to IFRS X.

- (i) *Actuaries whose clients or employers are applying, or moving to apply IFRS may ask their Member Associations for guidance in this area.*

No evidence of such demand is provided in the Sol.

- (ii) *Actuaries are expected to play a central role in preparing financial statements of insurers and reinsurers. Therefore, it is widely accepted that these actuaries will require internationally valid guidance.*

We consider that it is the Boards of insurers who are responsible for preparing the financial statements and therefore play the central role in their preparation. We agree that actuaries are often likely to play a role, sometimes a significant role, in providing advice to Boards on assumptions and methods used to determine insurance contract provisions. It is also likely that actuaries will often develop and run the models to quantify these provisions. Actuaries have an obligation to communicate their advice, the results and the material judgements on which they rely clearly so that Boards can understand the implications of the actuarial information being given to them and therefore make high quality decisions on insurance contract provisions.

We consider that ISAP 1 includes much of the necessary guidance to support this work. We accept that additional guidance might be necessary on the development and use of actuarial models including guidance concerning communication of the limitations of those models. We also accept that further guidance might be necessary on the communication of material judgements and uncertainty. However, we consider that this guidance is generic to all actuarial services and not specific to actuarial services concerning insurance contract provisions under IFRS.

- (iii) *The IAA has a MoU with the IASB and it aims to support the IASB in achieving comparable financial reporting internationally. Producing an ISAP is crucial to this support.*

We commend the IAA in supporting the IASB's goal to achieve comparable financial reporting internationally. However, we do not consider that producing an ISAP is crucial to this support. Rather we suggest that the IAA's efforts should focus on supporting the IASB's work on finalising the IFRS, eliminating any uncertainties or ambiguities, and developing clear and consistent application guidance.

2 Are any of the proposed topics inappropriate for inclusion in ISAP [4]

We are concerned that the IAA appears to be giving itself scope to take on what should properly be the role of the IASB.

For example, consider the item *Considerations when determining the pattern of recognition of the Contractual Service Margin*. Paragraph 32 of the IASB Exposure Draft already provides a principle for how the contractual service margin should be recognised. We consider that it is for the Board of an insurer to decide on how this principle should be applied and not the actuary. If further application guidance is seen as necessary to restrict a Board's scope for judgement concerning this decision then we consider this should be provided by the IASB and not the IAA.

We have similar concerns about many of the other topics proposed including:

- *Principles for determining the classification of contractual obligations vis-à-vis the definition of Insurance Contract and discretionary participation features in IFRS X (Contract Classification)*

The IASB Exposure Draft defines the scope of the [draft] Standard. It provides definitions of an *insurance contract* and *investment contracts with a discretionary participation feature*, and provides supporting application guidance.

- *Considerations for combining or separating components of insurance contracts*

The IASB Exposure Draft provides principles concerning combining or separating components as well as application guidance on separating components.

- *Considerations regarding the various initial and subsequent measurement approaches, including:*
 - *Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items*

- *Simplified approach for measuring the liability for the remaining coverage, including when its use is appropriate*
- *Reinsurance contracts held*
- *Portfolio transfers and business combinations*
- *Investment contracts with a discretionary participation feature*

The IASB Exposure Draft already provides for how these items should be measured although we accept that many respondents have argued about the appropriateness or practicability of the proposed measurement approaches. There is also application guidance.

- *Considerations for determining current interest rates which reflect the characteristics of the liability according to the guidance in IFRS X,*

The IASB Exposure Draft already provides principles and application guidance concerning how the time value of money should be recognised in measuring insurance contract provisions.

- *Considerations regarding the recognition, modification and derecognition of an insurance contract.*

The IASB Exposure Draft already provides principles concerning the the recognition, modification and derecognition of insurance contracts .

- *Considerations in handling transition.*

Appendix C of the IASB Exposure Draft covers transition matters.

We consider that judgements and decisions on the matters listed above are for the Board of the insurer to make. If the IAA considers these items require further clarification then it should work with the IASB to ensure the IFRS and its application guidance is complete rather than produce its own interpretation or guidance on how actuaries working for insurers might apply the principles and guidance in the final IFRS X.

Finally, it appears that the statement of intent gives the IAA almost complete freedom to develop principles on any matter concerning IFRS X as the proposed content substantially mirrors the various sections of the IASB Exposure Draft. While we understand the need for an early start given the duration of the IAA's standard-setting process we consider that the Statement of Intent should focus on substantive actuarial issues in order that respondents can make more specific comments.

3 What other topics should be included in ISAP [4]

In our view the role of the actuary working for an auditor is different to the role of the actuary working for a preparer of financial statements. While there will be some generic matters that apply to the work of both, we suggest that the IAA might like to consider whether specific principles should be developed applicable to the separate roles. We therefore suggest the IAA engages with the IAASB, if it is not already doing so, as well as the IASB.

In our response to question 1, we suggest that ISAP 1 might be extended to include principles applying to modelling and reporting on the limitations of those models, communication of material judgement and uncertainty. We consider these matters are very

relevant to financial reporting under IFRS X. Otherwise we see no need for further topics to be included in ISAP [4].

4 Please use this space for any additional comments not covered above.

We have no additional comments.

Yours sincerely

A handwritten signature in blue ink that reads "John Instance". The signature is written in a cursive style with a horizontal line above the first name.

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