ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

December 15, 2008

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

Dear Sir

Re: IAA comments on the Exposure Draft *Improving Disclosures about Financial Instruments*

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

Effective disclosure of the possible effects of risks and uncertainty associated with financial instruments is very important public information. We appreciate the efforts of the IASB to refine its standards to enhance disclosures in this area. We believe that most current concerns regarding disclosures about financial instruments relate to those financial instruments whose valuation is based on unobservable inputs. Quick but well reasoned action on this proposal will be of immediate and long-term value.

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

Yves Guérard
Secretary General

Attachment: IAA comments

A Commentary on the
EXPOSURE DRAFT ON IMPROVING DISCLOSURES ABOUT FINANCIAL INSTRUMENTS
PROPOSED AMENDMENTS TO IFRS 7
ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD: OCTOBER 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 in this letter present our general comments regarding the DP, which in turn are followed by our responses to the questions posed in the DP.

Effective, but not necessarily more, disclosure of the possible effects of risks and uncertainty associated with financial instruments will prove to be very important public information. We appreciate the efforts of the IASB to refine its standards to enhance disclosures in this area. We believe that most current concerns regarding disclosures about financial instruments relate to those financial instruments whose valuation is based on unobservable inputs. Quick but well reasoned action on this proposal will be of immediate and long-term value.

We are somewhat surprised that the IASB has taken the three tier approach as described by SFAS 157 prior to taking a position on fair value measurement itself. If the IASB decides to take this approach for disclosure, but uses another approach for measurement when it finalizes its fair value measurement project, then it may need to revise this disclosure guidance within a fairly short time period. Given the systems changes by preparers that may be necessary to provide for certain parts of this disclosure, that would not be desirable.

We believe that most users are concerned with more effective information regarding fair value measurements involving unobservable or inadequately observed inputs, rather than the proposed three tiers. As a result, we believe that it would be most beneficial to focus on a principles-based (in contrast to mandatory rules-based that might be useful to a few but apply to all) approach to disclosure of those financial instruments.

We believe that it is appropriate at this time to limit the scope of this proposed refinement of IFRS 7 to financial instruments. However, it would be appropriate to consider in the course of finalizing the IASB's fair value measurement project to determine how it can be appropriately expanded to cover all assets and liabilities measured at their fair value.

Comments regarding specific questions

Fair value disclosures

Question 1
Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

> **IAA Comment:** We do not favour the proposed three tier approach at this time. We are somewhat surprised that the IASB has taken an approach that is consistent with that described by SFAS 157 prior to the determination of whether such an approach should be taken on fair value measurement. If the IASB decides to take this three tier approach for disclosure but uses another approach for measurement when it finalizes its fair value measurements project, then it may need to revise this disclosure guidance within a fairly short period. Given the systems changes by preparers that may be necessary to provide for certain parts of this disclosure, that would not be desirable.
>
> We believe that most users are concerned with more effective information regarding fair value measurements involving unobservable or inadequately observed inputs, rather than for each of the proposed three tiers separately. As a result, we believe that it would be most beneficial to focus a principles-based (in contrast to mandatory rules-based that might be useful to a few but apply to all) approach to disclosure on those financial instruments.

Question 2
Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

> **IAA Comment:** We disagree with the proposed hierarchy at this time, for the reasons given in our response to Question 1. Since the key focus of these disclosures relates to fair valuation of financial instruments that are based on unobservable inputs, we recommend that the standard simply require a single set of separate disclosures for such financial instruments without requiring an analysis in accordance with a hierarchy. We believe that the distinction between SFAS 157's levels 1 and 2 has in many cases proven difficult in practice for SFAS 157 in US GAAP, for example, for corporate bonds that do not trade frequently on an individual basis that may fall in either level 1 or 2 depending

on the time since the most recent trades. As a result, users may not find the distinction and movement between levels 1 and 2 sufficiently useful information to warrant the additional cost and data provided.

In addition, we note that in our view, the proposed hierarchy may create too strong a presumption that fair value is the latest observed price. In our view fair values refer to observed prices only in an orderly market.

Question 3
Do you agree with the proposals in:
(a) paragraph 27B to require expanded disclosures about the fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?

IAA Comment: We agree that disclosures of the effect of the use of unobservable inputs, as described in 27B, provide useful and transparent information for users. Nevertheless, we believe that the Board should review whether all of the proposed information contained in the proposed reconciliation is important for users and thus should be required by all preparing entities. As a result, we believe that the requirement should be principles-based, leaving the details of the reconciliation to be determined by the preparer. A more complete description of the underlying principles may provide assistance in this area, particularly in view of the systems costs involved in preparing such reconciliations.

In addition, where it is deemed both beneficial and practical, a sensitivity to the proposed roll-forward analysis may prove insightful information.

Question 3
Do you agree with the proposals in:
(b) paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?

IAA Comment: We agree that fair value information should be disclosed in all financial statements. Where fair values are only used for disclosure purposes, the amount of the fair values based on significant unobservable inputs should be disclosed separately.

Liquidity disclosures

Question 4
Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?

IAA Comment: We agree with the proposal. The proposed requirement to disclose a maturity analysis for derivative financial liabilities based on the entity manages their liability risk is consistent with the principle in IFRS 7 of disclosing information "through the eyes of management". This should improve the quality of liquidity disclosures for financial instruments and is consistent with IFRS 7 for insurance contracts.

We are uncertain which financial instruments are referred to in the stem paragraph in B11C: "… (including financial instruments that would meet the definition of a derivative financial liability if they were recognised) …" For example, we assume the Board did not mean to cover all own use or insurance contracts that would meet the definition of a derivative if they were scoped into IAS 39.

Question 5

Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non-derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?

IAA Comment: We agree that an entity should provide a maturity analysis for non-derivative financial liabilities based on their remaining expected maturities, if the entity manages its liquidity risk associated with the instruments on the basis of its expected maturities. It is also consistent with requirements for insurance contracts.

However, we note that at the same time that a maturity analysis is provided for non-derivative financial liabilities it would also be appropriate to consider the effect of corresponding mitigation techniques that are applied, including appropriate assets, where applicable.

No explanation for deleting current paragraph B16 is given. This may not be appropriate, as B16 appears to be helpful in determining which interest rates should be used when scheduling out cash flows on variable rate loans. The Board may wish to review this decision.

If this amendment is adopted, a consequential amendment to IFRS 4 should be included, as IFRS 4.39(d)(i) cross-references IFRS 7.39(a) that would now be IFRS 7.39(b). Further, the amendment

> "… If the entity manages liquidity on the basis of expected maturities, it *also* shall disclose the remaining expected maturities for those financial liabilities." (*emphasis added*)

implies that contractual maturities should be disclosed by insurers, in addition to expected maturities. For a significant percentage of insurance contracts, e.g., property and casualty insurance, payout annuities and term life insurance, this makes little sense, as there is no contractual maturity as such. As a result, we believe that IFRS 4.39(d)(i) should be more clear, possibly by changing the word "instead" for "also".

Question 6
Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?

> **IAA Comment:** We agree with the additional reference to settle by delivering cash. However, we do not necessarily agree with the reference to delivering another financial asset. We believe the main issue in an illiquid market is that an entity cannot sell an asset in exchange for cash and as a result, an obligation to pay in cash may encounter difficulties in such a circumstance.
>
> We believe that the situation in which the obligation refers to a settlement by delivering a financial asset is different. If that financial asset is not held by the entity, the entity must sell the asset it holds and buy the asset as specified in the obligation. However, such an approach implies that the entity has backed its obligation with non-matching assets, which would not have been a liquidity issue in the first place. As a result, we suggest that the definition only refer to delivering cash. If the Board decides to include the phrase delivering by “another financial asset”, we believe additional explanation is needed between matching and liquidity risk.

Effective date and transition

Question 7
Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

> **IAA Comment:** We have some concerns with the proposed effective date. As the proposed disclosure requirements are relevant to current market conditions, waiting until financial periods beginning on or after 1 July 2009 for implementation would delay mandatory application for calendar year reporting companies until they publish their 2010 financial statements. Due to current needs for the proposed type of information, it may be more useful for the revised standard to become effective for periods prior to this date, if quick action by the IASB is taken, with early adoption encouraged.
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> If this is the case, to reduce the burden on applicable reporting companies, it may be appropriate for the first reporting year only to eliminate the requirement for comparatives for periods prior to the adoption of the revised standard.

Question 8
Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

> **IAA Comment:** See the second paragraph under our comments in Question 7.

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 James 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)