ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

June 30, 2010

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

Dear Sir

Re: IAA comments on the IASB Exposure Draft on *Financial Instruments: Amortized Cost and Impairment*

In response to the request for comments on the Exposure Draft on *Financial Instruments: Amortized Cost and Impairment,* I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by a task force of the Committee on Insurance Accounting. 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 FINANCIAL INSTRUMENTS: AMORTISED COST AND IMPAIRMENT
Released by the International Accounting Standards Board: November 2009

International Actuarial Association and IAA Due Process

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-three Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The Full Member associations of the IAA are listed in an Appendix to this statement. 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 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 and self-insurers around the world, with an emphasis on measurement of liabilities and reinsurance assets related to insured and self-insured exposures. 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, which we believe represents an accurate and fairly comprehensive view of those involved in insurance and risk management globally. The members of the committee are listed in an Appendix to this statement. It has also 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.

IAA General Comments

We thank the Board for the opportunity to comment on the proposals presented in this ED. Overall, we believe the expected loss model is superior to the incurred loss model. We also believe that it is appropriate for a standard to describe the expected loss model on a principle-based basis, accompanied by effective disclosure of the key elements of and inputs into the model used. Because of the importance of effective disclosure, we suggest that the Board takes up on a high priority basis a general review of IFRS 9 subsequent to the adoption of the current high priority financial instrument and insurance contracts projects. Although examples providing guidance to implementation would be useful, it should be made clear that such guidance is illustrative and not prescriptive of the only approach that could be taken.

We would be glad to provide further assistance regarding this method, which shares to a great extent the overall approach to measurement used in the assessment of property & casualty insurance claims liabilities and claim development techniques.

Comments on Specifically Raised Questions in the Exposure Draft

As requested, the following responds to the questions as posed in the Exposure Draft, indicating the specific paragraphs to which our comments relate.

Question 1
Is the description of the objective of amortised cost measurement in the exposure draft clear? If not, how would you describe the objective and why?

IAA Comments: The objective of amortised cost measurement set out in the exposure draft is "to provide information about the effective return on a financial asset or financial liability by allocating interest revenue or interest expense over the expected life of the financial instrument." We believe this objective is clear.

Question 2
Do you believe that the objective of amortised cost set out in the exposure draft is appropriate for that measurement category? If not, why? What objective would you propose and why?

IAA Comments: We believe that the objective of amortised cost as set out in the exposure draft is reasonable. The initial estimate of expected credit losses is appropriately spread over the expected life of the financial asset in a manner consistent with the expected incidence of those losses and revisions to this estimate are recognised in income as they arise. We believe that changes in credit estimates are similar to changes in estimates in other factors related to the loan, just like changes in expected cash flows in insurance contracts or pension plans should be reflected when changes in these expectations arise. Changes in estimates that relate to the prior and current periods should be recorded in the income statement immediately. Changes that relate to future periods if corresponding revenue has not been recognized should be spread over the remaining life of the financial asset, because the corresponding revenue related to those periods is not yet earned. However, if the financial asset is no longer expected to generate income in the future, all changes in credit loss estimates should be recognised immediately.

Question 3
Do you agree with the way that the exposure draft is drafted, which emphasises measurement principles accompanied by application guidance but which does not include implementation guidance or illustrative examples? If not, why? How would you prefer the standard to be drafted instead, and why?

IAA Comments: We support a principle-based approach to standard-setting and believe that the principles should be supplemented with implementation guidance to the extent necessary depending on the nature and complexity of the area. The Expert Advisory Panel identified several potential practical solutions, such as de-coupling interest income and expected loss estimates and differentiating between segments of a book of loans according to their risk characteristics. We believe these are good suggestions and support their further development. They are indeed consistent with overall insurance practice. It is important that reflection of entity-specific situations and risk mix is important in establishing a relevant, useful and soundly based estimation methodology. Entities should have the flexibility to estimate losses over a reasonable period given their systems, financial products and economic environment and to assume long-term average loss rates for the remaining term by portfolio (type) of loan. Given the significance of the operational challenges that we have been told will be necessary in some financial institutions and the nature of the suggested approach, we believe that the Board should incorporate an appropriate amount of implementation guidance and illustrative examples in the final standard. Nevertheless, it should be made clear that such guidance is illustrative and not prescriptive of the only approach that could be taken.

Question 4

(a) Do you agree with the measurement principles set out in the exposure draft? If not, which of the measurement principles do you disagree with and why?

(b) Are there any other measurement principles that should be added? If so, what are they and why should they be added?

IAA Comments regarding (a) and (b). We agree that amortised cost should reflect current inputs regarding cash flow estimates and inputs related to initial recognition. We believe that changes in estimates of expected credit losses should be reflected in income immediately to the extent they relate to prior and current periods and should be reflected in subsequent periods to the extent they relate to future revenue recognition.

We agree that a probability-weighted approach to the determination of expected cash flows works well for large portfolios. Nevertheless, we note that alternative methods of deriving expected values may exist or emerge that might be acceptable. For example, stochastic or a representative range of scenarios may be used for such purpose. We believe that the standard should not be prescriptive in terms of a methodology as to how to estimate expected cash flows, but should leave it up to the preparers to determine the most appropriate approach for their circumstances, as long as it satisfies the indicated objectives. Whatever approach is used, the methodology and major inputs should be clearly disclosed in the financial statements.

We believe it would be appropriate to have the same impairment model for loans and loan commitments that are not accounted for as derivatives. Financial institutions generally consider both loans and loan commitments together when completing their credit assessments. Therefore, including loan commitments within the scope of the Exposure Draft would be consistent with the way most financial institutions manage their business.

Question 5

(a) Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost in the exposure draft clear? If not, how would you describe the objective and why?

(b) Do you believe that the objective of presentation and disclosure in relation to financial instruments measured at amortised cost set out in the exposure draft is appropriate? If not, why? What objective would you propose and why?

IAA Comments regarding (a) and (b). The objective of presentation and disclosure as set out in the exposure draft is to enable users to evaluate the financial effect of interest revenue and interest expense, and the quality of financial assets including their credit risk. Although we believe that the objective is clear and reasonable, we believe the disclosure objective should be expanded to include information to enable users to understand the methods and inputs used to develop credit loss estimates.

Question 6
Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?

IAA Comments: We agree that the proposed presentation requirements are reasonable. In addition they are consistent with the presentation and disclosure objective set out in the Exposure Draft. We do, nevertheless, believe that changes in expected credit losses should be reflected in interest income. We do not believe there should be a difference in the financial statement presentation between the initial estimate of credit losses and any subsequent adjustments as a result of a change in that estimate.

Question 7
(a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?
(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?

IAA Comments regarding (a) and (b). We believe that the required disclosures taken as a whole are reasonable and that the use of a loss triangle by overall asset class, just as in property & casualty insurance claims liabilities, would be particularly useful. Additional qualitative information may be useful, including how management determines the credit quality of their financial assets, how they estimate credit losses, and how they measure the accuracy of their estimation process.

The amendment of IFRS 7 to incorporate the new impairment-related disclosure requirements suggests that it may prove useful for the Board to reassess the overall disclosure requirements for instruments within the scope of IFRS 7. IFRS 7 has been amended several times over the last few years, and the Board will likely amend it further as it completes the remaining portions of its financial instruments and insurance contracts projects. At some point, it would be appropriate for the Board to consider comprehensively reassessing the financial instruments disclosure requirements to ensure the right balance of useful and cost-justifiable information is achieved. This may benefit from a post implementation review conducted after the 2010/2011 projects have been implemented.

Question 8
Would a mandatory effective date of about three years after the date of issue of the IFRS allow sufficient lead-time for implementing the proposed requirements? If not, what would be an appropriate lead-time and why?

IAA Comments: We do not have a strong opinion regarding the lead time that is needed for full implementation of these plans. We encourage the Board to listen to the stakeholders involved regarding the time it would take to operationally implement this, along with other related standards for the industries affected. It is more important for entities to effectively implement and disclose the results of this exposure draft than to implement a year earlier.

Question 9

(a) Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?

(b) Would you prefer the alternative transition approach (described above in the summary of the transition requirements)? If so, why?

(c) Do you agree that comparative information should be restated to reflect the proposed requirements? If not, what would you prefer instead and why? If you believe that the requirement to restate comparative information would affect the lead-time (see Question 8) please describe why and to what extent.

IAA Comments regarding (a), (b) and (c). We do not have a strong opinion regarding transition requirements, although conceptually we support the Board's proposal that the standard should be applied retrospectively.

Question 10

Do you agree with the proposed disclosure requirements in relation to transition? If not, what would you propose instead and why?

IAA Comments: We agree with the proposed disclosure requirements in relation to transition.

Question 11

Do you agree that the proposed guidance on practical expedients is appropriate? If not, why? What would you propose instead and why?

IAA Comments: We do not disagree with the practical expedients described in the Exposure Draft and do not have any suggestions regarding alternatives.

Question 12

Do you believe additional guidance on practical expedients should be provided? If so, what guidance would you propose and why? How closely do you think any additional practical expedients would approximate the outcome that would result from the proposed requirements, and what is the basis for your assessment?

IAA Comments: Although we do not have any suggestions regarding additional guidance in this area, we believe that the Board should be open to new approaches that can be taken, especially if they are shown to provide reasonable estimates of the factors involved. The continuation of the work of expert groups regarding risk classification for this purpose may prove helpful. As mentioned, we believe that the Board should provide entities the flexibility to estimate losses over a reasonable forward period that is appropriate given their systems, financial products and economic environment and to assume long-term average loss rates for the remaining term.

Given the nature of the suggested solutions, we believe that the Board should consider incorporating an appropriate amount of implementation guidance and illustrative examples in the final standard. However it should be clear that such guidance is illustrative and not prescriptive of the only approach to be used.

Clearly an appropriate balance has to be met between the desire for a principles-based standard and the need for some application/implementation guidance given the considerable operational issues involved. In this regard, it would also be helpful if the IASB would distinguish between guidance which is assumed by the standard to be consistent with the expected cash flow approach and practical expedients that can be applied, provided the preparer can justify they are not materially different to the expected cash flow approach.

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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
Victor Hugo Cesar Bagnati	Instituto Brasileiro de Atuária
Daniel N. Barron	Israel Association of Actuaries
Guy Castagnoli	Association Suisse des Actuaires
Antonella Chiricosta	Istituto Italiano degli Attuari
Alexander Dollhopf	Svenska Aktuarieföreningen
Guillermo Ezcurra Lopez De La Garma	Instituto de Actuarios Españoles
David John Finnis	Institute of Actuaries of Australia
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
Ad Kok	Het Actuarieel Genootschap
Christoph Krischanitz	Aktuarvereinigung Österreichs
Kurt Lambrechts	Association Royale des Actuaires Belges
Yin Lawn	Actuarial Institute of Chinese Taipei
Kristine Lomanovska	Latvijas Aktuaru Asociacija
AnaMaria Martins Pereira	Instituto dos Actuários Portugueses
Brian Joseph Morrissey	Society of Actuaries in Ireland
Yoshio Nakamura	Institute of Actuaries of Japan
Marc F Oberholtzer	Casualty Actuarial Society
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.
Pentti Soininen	Suomen Aktuaariyhdistys
Bjarni Thórdarson	Félag Islenskra Tryggingastærðfræðinga
Arseny Timakov	Russian Guild of Actuaries
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)
The Actuarial Society of Kenya (Kenya)
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)