



November 15th, 2010

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

Re: Exposure Draft – Insurance Contracts

The Committee on Corporate Reporting (CCR) of the Financial Executive International Canada (FEI Canada) is writing to provide its response to the International Accounting Standards Board (IASB) Exposure Draft (ED) ED/2010/8 Insurance Contracts.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 2,000 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting (CCR) is one of two national advocacy committees of FEI Canada. CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations that impact corporate reporting.

We have not responded to a number of questions in the ED as these questions are quite technical and unique to the insurance industry. We believe that the "field test" participants are best suited to assess user and preparer concerns posed by these questions.

In addition, this ED has implications to the insurance industry that transcend financial reporting, such as asset and liability matching and product design. Given these fundamental issues we will defer to the findings of the "field test" participants, and other interested parties, to address these technical matters within the context of financial reporting, product administration and other matters.

Question 18 – Other comments

Do you have any other comments on the proposals in the exposure draft?

1. *International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) convergence:*

We are concerned that the IASB and the FASB are preparing independent insurance standards. We do not support divergent standards as this affects comparability of financial statements. We have highlighted a few examples of material items where the two boards are not converged.

- a. The IASB favours including Discretionary Participating Features (DPF) within Insurance Contracts whereas the FASB recommends that DPF be accounted for as Financial Instruments using the applicable IFRS.

- b. The IASB favours a two-margin approach that distinguishes risk and residual margins whereas the FASB has combined these two margins.
- c. It is not clear that the FASB and the IASB are aligned with the modified measurement approach for pre-claim liabilities of certain short-term contracts.

Given the global nature of insurance companies, that often compete with one other for capital in numerous jurisdictions, we believe that it is imperative that these IASB/FASB differences be reconciled prior to the publication of either standard. We do not believe that investors and other interested parties are well served with separate measurement bases for similar products. If convergence cannot be achieved in the short term we recommend that the IASB postpone Insurance Contracts until these divergent matters are addressed. We appreciate that this proposal has been under development for over 13 years but we believe that all efforts should be made to ensure that the standard properly addresses global convergence.

2. Consistency of Insurance Contracts with other IFRS pronouncements:

The ED recommends unbundling of components of an insurance contract, such as investment and service components, if such components are not closely related to the underlying insurance risk. Unbundled components are to be accounted for by applying the IFRS that is relevant to the component. For example, the IASB believes that the Exposure Draft Revenue from Contracts with Customers is aligned with the service elements of an insurance contract. We encourage this alignment and recommend that the IASB confirm that all standards are aligned in order to prevent organizations from selecting accounting policies based on form over substance.

The absence of such assurance may reflect poorly on the principles of the Conceptual Framework which, among other objectives, emphasizes comparability and consistency of financial reporting. For example, we observed that there were 16 different measurement bases for assets and 8 different measurement bases for liabilities incorporated into individual standards and the Conceptual Framework.

The implications of divergent standards are compounded for insurance contracts where assets that support the liabilities will not be measured on a consistent basis. The IASB “current fulfillment value” of the liabilities exacerbates the differences where liability durations are longer than asset durations. This mismatch will result in volatile profit and loss results, which can only be explained by accounting irregularities rather than reliable economic indicators of the performance of the organization.

3. Timelines:

We observed that the ED does not include effective dates or early adoption provisions. The ED acknowledges that the IASB may delay issuing IFRS 9, Financial Instruments, as IFRS 9 addresses the majority of an insurer’s assets. As we noted above, we believe that the insurance industry in particular must align standards that address assets and liabilities. We believe that these two standards should be issued concurrently in order to avoid duplicating conversion efforts. We also encourage early adoption provisions in order to facilitate unique circumstances for filers.

4. Due process concerns:



We have two concerns regarding the Due Process applied to this ED.

We are concerned with the demands on industry participants to provide meaningful responses and we recommend extending the deadlines to ensure that responses are obtained. The November 30th, 2010 deadline does not provide sufficient time for a thorough analysis of the ED.

We are concerned that proposed roundtable discussions for the user community regarding financial statement presentation of the ED represent only one component of the evaluation process. We recommend that the Boards evaluate user opinions regarding information that is reflective of a) the business model of an insurance company and b) whether the results address all quantifiable risks in the measurement of insurance liabilities – including asset/liability and duration risk. The quantitative impacts of the IASB proposals can be shared through illustrative "model-offices" prepared by field test participants on order to preserve the confidentiality of participants.

We appreciate the opportunity to provide our comments on this important topic. In light of the concerns outlined above, we strongly recommend that the IASB does not proceed in haste to achieve the June 30, 2011 publication of the insurance standard to the detriment of achieving a high quality, globally converged insurance standard.

We would be pleased to discuss any of our comments further with you.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Tyrone Cotie', written in a cursive style.

Tyrone Cotie
Chair
Committee on Corporate Reporting
FEI Canada