

PartnerRe



December 15, 2010

Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt, 7
P.O. Box 5116
Norwalk, CT 06856-5116
United States

Re: Financial Accounting Standards Board Discussion Paper “Preliminary Views on Insurance Contracts” (File Reference No. 1870-100)

Dear Sir:

We appreciate the opportunity to provide input into the establishment of a global accounting standard for Insurance Contracts. We fully support the development of a single, global, high quality financial reporting and accounting standard for insurance contracts. While we agree with a number of the key proposals outlined in the Financial Accounting Standards Board’s (Board) Discussion Paper (DP) and the International Accounting Standards Board’s (IASB) Exposure Draft (ED), we disagree with certain significant areas of both documents. We believe that it is important that the Board continues to work closely with the IASB to make changes in response to the comments received from the (re)insurance industry (see below for our specific comments) and to resolve current differences between the Board’s and the IASB’s views in order to achieve convergence on a global and comprehensive accounting standard for insurance contracts.

We have drafted our responses below to the Board’s Discussion Paper titled “Preliminary Views on Insurance Contracts” by providing a cross reference to our response to the IASB’s Exposure Draft (ED) titled “Insurance Contracts”, which we submitted to the IASB on November 30, 2010. We have attached a full copy of our response to the IASB’s ED for your convenience as Appendix A. We will provide more detailed responses to the Board’s forthcoming ED related to Insurance Contracts that is expected to be issued in due course.

In summary, the following represent the significant areas of the Board’s DP and the IASB’s ED which we agree or disagree with.

PartnerRe

Agreement	Disagreement
<p>Fulfilment cash flows – we support a fulfilment value model as this represents the most likely economic outcome (i.e. obligations will be fulfilled rather than exited). We agree that assumptions underlying the measurement of insurance liabilities should be periodically reviewed and changed, if appropriate. However, we do not consider it necessary to unlock or change assumptions every time actual experience and expected experience differ unless the change is expected to be sustained and significant, which can only be judged over time based on underlying trends rather than an injudicious response to immature data (see our response to Question 2 of the IASB’s ED).</p>	<p>Modified approach (or Premium Allocation Approach (PAA) – we believe that the existing non-life accounting model is both strong and well understood by users of financial statements and does not require a major overhaul. As such, we agree with the concept of a modified approach for short-duration contracts that utilizes the existing Unearned Premium model with certain targeted improvements, such as discounting of reserves. However, we are in disagreement with many of the details in the IASB’s ED related to the application of the PAA (for example, the one year bright-line criteria for defining short-duration contracts, the discounting of future premiums and the onerous contracts test) (see our response to Question 8 of the IASB’s ED).</p>
<p>Composite margin – we support the use of a composite margin as favored by the Board (see our response to Questions 4, 5 and 6 of the IASB’s ED).</p>	<p>Presentation – we do not believe that the summarized margin approach outlined in the IASB’s ED provides users of financial statements with meaningful information. We prefer a traditional presentation on the face of the statement of comprehensive income that maintains users focus on key performance measures. However, we do agree with the IASB’s ED that all income and expenses arising from insurance contracts should be presented in the statement of comprehensive income (see our response to Question 13 of the IASB’s ED).</p>

Agreement	Disagreement
<p>Risk free rate - we fully support the concept of discounting of reserves using a current risk-free rate (see our response to Question 3 of the IASB's ED).</p>	<p>Disclosure – we do not believe that the proposed disclosures outlined in the IASB's ED provide meaningful or decision useful information to users. The prescribed disclosures are too voluminous and are required at too low a level to provide meaningful information. In addition, they will be overly burdensome to prepare and audit. We believe the Board should set the principles of disclosure and allow the industry to determine best practice and the appropriate level of disclosure (see our response to Question 14 of the IASB's ED).</p>
<p>Day one gains – we agree with the concept of not reflecting day one gains in the statement of comprehensive income (see our response to Question 6a).</p>	<p>Reinsurance – we believe the Board's DP and the IASB's ED currently give rise to a number of specific issues related to reinsurance contracts as well as conceptual issues related to consistency, measurement and recognition (see our response to Question 16 of the IASB's ED).</p>
<p>Definition and scope – we agree with the proposals in the Board's DP and the IASB's ED.</p>	<p>Benefits and costs – we do not currently believe that costs associated with the application of the IASB's ED, as it is currently drafted, are “reasonable” and do not believe that the benefits of the ED currently outweigh the costs (see our response to Question 19 of the IASB's ED).</p>
<p>Unbundling – we agree with the proposals in the Board's DP and the IASB's ED.</p>	
<p>Transition – we favor the transition provisions tentatively proposed by the Board (see our response to Question 17 of the IASB's ED).</p>	

PartnerRe



The following represent our specific responses to the questions in the Board's DP.

Definition and Scope

1. Are the proposed definitions of insurance contract and insurance risk (including the related guidance) understandable and operational?

Yes.

2. If the scope of the proposed guidance on insurance contracts is based on the definition of an insurance contract rather than on the type of entity issuing the contract, would financial reporting be improved?

Yes.

3. Do you agree with the proposed scope exclusions? Why or why not?

Yes. The scope exemptions are generally the same as those included in the IASB's ED except for additional exemptions for employee benefit plans and financial instruments that contain discretionary participation features. See Question 11 of our response letter to the IASB's ED.

4. Should benefits that an employer provides to its employees that otherwise meet the definition of an insurance contract be within the scope of the proposed guidance? Why or why not?

We do not have any comments.

5. The Board's preliminary view is that participating investment contracts should not be accounted for within the proposed model for insurance contracts but, rather, should be included in the scope of the proposed model for accounting for financial instruments. Do you agree? Why or why not?

We do not have any comments.

6. Do you support the approach for determining when noninsurance components of contracts should be unbundled? Why or why not?

Yes. See Question 12 of our response letter to the IASB's ED.

Recognition and Measurement

7. Do you agree with the use of the probability-weighted estimate of net cash flows to measure insurance contracts? Does that approach faithfully represent the economics of insurance contracts? Is it an improvement over existing U.S. GAAP?

See Question 2(a) of our response letter to the IASB's ED.

8. Do you think that an entity's estimate of the net cash flows should include a risk adjustment margin?

No, we support the use of a single composite margin. See Questions 4, 5 and 6 of our response letter to the IASB's ED.

9. Is the objective of the risk adjustment margin understandable? If so, do you think that the techniques for estimating the risk adjustment margin (see paragraph 52(b)), faithfully represent the maximum amount that the insurer would rationally pay to be relieved of the risk that the ultimate fulfillment cash flows exceed those expected?

We prefer the use of a single composite margin. See Questions 4, 5 and 6 of our response letter to the IASB's ED.

10. Do you think that the risk adjustment margin would be comparable for entities that are exposed to similar risks?

No, we believe the use of a risk adjustment and residual margin, even based on the three specified approaches outlined in the IASB's ED, would lead to a lack of comparability among (re)insurers in how the risk adjustment is calculated and would bring a significant amount of judgment into the financial statements. We do not see any benefit to users or preparers of financial statements from allocating the margin into a risk adjustment and a residual margin.

PartnerRe



See Questions 4, 5 and 6 of our response letter to the IASB's ED.

11. Do you agree with the description of cash flows that should be included in the measurement of an insurance contract? Is the proposed guidance operational?

Yes, we agree with the Board's conceptual approach to describing cash flows. However, we recommend that the Board provides additional guidance in its forthcoming ED, which is expected to be issued in due course.

12. Do you agree that the carrying amount of all insurance contracts should be discounted if the effect is material? Do you agree with the proposed guidance on the discount rate that should be used to measure the carrying amount of insurance contracts? If not, which discount rate should be used?

Yes, we agree with the concept of the certain targeted improvements to the existing non-life accounting model in U.S. GAAP, such as discounting of reserves. We also believe that the use of a risk-free rate of interest reflecting the insurance contract liability (i.e. taking into account the currency and duration risks) is an appropriate approach to discounting reserves. See Questions 1 and 3 of our response letter to the IASB's ED.

13. Do you think that acquisition costs should be included as one of the cash flows relating to the contract? If not, how would you account for acquisition costs?

Yes, we agree that incremental acquisition costs should be included in the initial measurement of the insurance contract cash flows. See Question 7 of our response letter to the IASB's ED.

14. Do you agree that acquisition costs included in the cash flows used in the measurement of the insurance contract should be limited to those that are incremental at the individual contract level? If not, which acquisition costs, if any, would you include in the measurement of the insurance contract?

Yes, we agree that only incremental acquisition costs at the individual contract level should be included in the initial measurement of the insurance contract outflows. See Question 7 of our response letter to the IASB's ED.

PartnerRe



15. Do you agree with the use of either the composite margin approach or two-margin approach to measure the net insurance contract? Does either approach faithfully represent the economics of insurance contracts? Is either approach an improvement over the measurement used in current U.S. GAAP?

We support the use of a single composite margin. See Questions 4, 5 and 6 of our response letter to the IASB's ED.

16. Do you think that the composite margin should be recognized in earnings in subsequent periods using the ratio described in paragraph 83? If not, how would you recognize the composite margin in earnings?

Yes. See Question 6(e) of our response letter to the IASB's ED.

17. Do you agree that interest should not be accreted on the composite margin? Why or why not?

Yes. See Questions 6(f) of our response letter to the IASB's ED.

18. Do you think that all insurance contracts should be recognized and measured using one approach or that some insurance contracts should be recognized and measured using an alternative approach (for example, the modified approach)? Why or why not?

We support the overall concept of having a modified approach (or Premium Allocation Approach) for short-duration contracts as we believe the existing non-life accounting model does not require a major overhaul. See Question 8 of our response letter to the IASB's ED.

19. If an alternate approach is required for some insurance contracts, what recognition, measurement, and presentation provisions should be applied (including those items noted in paragraph 106)?

For our discussion of the items noted by the Board in paragraph 106, see Questions 6(f), 8 and 13 of our response letter to the IASB's ED.

20. Do both the building-block approach and the modified approach (with the latter approach applied only to certain short-duration contracts) produce relevant and decision-useful information? Why or why not?

As primarily a writer of short-duration contracts we are fully supportive from a conceptual standpoint of using a simplified method for short-duration contracts. We believe that the existing non-life accounting model is both strong and well understood by users of financial statements and does not require a major overhaul. As such, we agree with the concept of the Premium Allocation Approach for short-duration contracts which utilizes the existing Unearned Premium model with certain targeted improvements, such as discounting of reserves. However, we also feel that the proposed Premium Allocation Approach measurement model (as outlined in the IASB's ED) is unnecessarily complicated and arduous.

With respect to the building blocks measurement model (for contracts that do not meet the conditions to use the Premium Allocation Approach), we do not believe that the measurement model will produce relevant information for users due to the increased subjectivity introduced, the lack of transparency that will be created through the use of a summarized margin presentation and the production of voluminous disclosures that will obscure the decision relevant information.

See Questions 1, 8 and 13 of our response letter to the IASB's ED.

21. How should the scope of insurance products for each approach be defined (for example, duration of coverage period, duration of claims payment period, or type of insurance)?

See Question 8 of our response letter to the IASB's ED.

22. Are there specific types of insurance contracts for which the approaches would not provide decision-useful information?

See Question 8 of our response letter to the IASB's ED.

PartnerRe

23. What are the implications of the recent U.S. healthcare reform to the application of the proposed contract boundary principle, including whether health insurance contracts written under the new reforms would meet the conditions in the proposed guidance to be accounted for under the modified approach?

We do not have any comments.

24. What other changes should be considered to both improve and simplify U.S. GAAP for short- and long-duration insurance contracts?

The desired improvements outlined in paragraph 7 of the Board's DP would improve U.S. GAAP for short-duration and long-duration insurance contracts, with the exception of reevaluating and updating some or all assumptions at each reporting period. As outlined in Question 2 of our response letter to the IASB's ED, we do not consider it necessary to unlock or change assumptions every time actual experience and expected experience differ unless the change is expected to be sustained and significant, which can only be judged over time based on underlying trends rather than an injudicious response to immature data.

25. What are the incremental costs of adopting the alternatives described in this Discussion Paper? Please separately describe one-time costs and ongoing costs.

See Question 19 of our response letter to the IASB's ED.

Reinsurance

26. The scope of the proposed guidance includes reinsurance contracts that an insurer issues or acquires. However, insurance contracts held directly by other policyholders would be excluded from the scope of the proposed guidance. Do you agree with this exclusion? Why or why not?

Yes, we believe the scope of the proposed guidance should include reinsurance contracts that an insurer issues and acquires. We do not have any comments related to excluding policyholders from the scope of the proposed guidance. See Question 16 of our response letter to the IASB's ED for further discussion of issues related to reinsurance.

PartnerRe



27. Should there be symmetry between the recognition and measurement of reinsurance contracts and the underlying contract ceded?

Yes. See Question 16 of our response letter to the IASB's ED.

Presentation and Disclosure

28. The margin presentation approach highlights the changes in the insurance liability, rather than the current approach in U.S. GAAP, which presents, among other items, premium revenues, benefits paid, operating costs, and changes in loss estimates. Would this change improve your understanding of the performance of an entity that provides insurance (for some types of insurance or for all)? Please explain.

No, we believe that the currently proposed summarized margin presentation will result in financial statements that are prepared in accordance with GAAP becoming less useful to investors, analysts and creditors. As such we expect the users will request management to present certain additional non-GAAP financial information to enable them to assess financial performance within other externally published financial information, such as press releases or financial supplements. As such these users will place greater focus and importance on other externally published financial information rather than financial statements prepared in accordance with IFRS or U.S. GAAP using the margin presentation approach.

We are supportive of the disaggregated approach to the presentation in the statement of comprehensive income for short-duration contracts as outlined in paragraph 75(a) of the IASB's ED. This approach retains the existing traditional presentation and allows management and users to maintain their focus on traditional key performance measures (loss ratios, technical ratios and combined ratios).

See Question 13 of our response letter to the IASB's ED.

29. Should insurance contracts measured under the building-block approach be presented using a margin presentation approach or a premium presentation approach that would require a true-up amount as described in paragraph 119 (for example, the written allocation presentation approach or the allocated premium presentation approach)?

See above our response to Question 28 and see Question 13 of our response letter to the IASB's ED.

PartnerRe



30. Should short- and long-duration (or nonlife and life) contracts be presented in a similar manner even if such contracts are measured under different approaches?

No. See Question 13 of our response letter to the IASB's ED.

31. Do you agree with the proposed disclosures in the IASB's Exposure Draft? Why or why not? If not, what would you recommend and why?

No. We do not believe that the proposed disclosures in the IASB's ED provide meaningful or decision useful information to users. The prescribed disclosures are too voluminous and are required at too low a level to provide meaningful information. In addition, they will be overly burdensome to prepare and audit. We believe the Board and the IASB should set the principles of disclosure and allow the industry to determine best practice and the appropriate level of disclosure. See Question 14 of our response letter to the IASB's ED.

Additional Question for Respondents

32. After considering your views on the specific issues contained in this Discussion Paper and the IASB's Exposure Draft, what do you think would represent the most appropriate improvement to U.S. GAAP?

- a. Pursue an approach based on the IASB's Exposure Draft?**
- b. Pursue an approach based on the IASB's Exposure Draft with some changes? Please explain those changes.**
- c. Pursue an approach based on the Board's preliminary views in this Discussion Paper?**
- d. Pursue an approach based on the Board's preliminary views in this Discussion Paper with some changes? Please explain those changes.**
- e. Make targeted changes to address specific concerns about current U.S. GAAP (for example, items included in paragraph 7)? Please describe those changes.**

Regardless of whether the Securities and Exchange Commission decides to require its filers to report in accordance with IFRS, we believe the most appropriate improvement to U.S. GAAP reporting would represent option b. As outlined in our opening paragraph to this letter, convergence with the IASB's ED is critical in order to develop a single, global, high quality financial reporting and accounting standard for insurance contracts. The Board and the IASB should work closely together to resolve their existing differences and recognize the strengths of

PartnerRe



the existing non-life accounting model, the traditional statement of comprehensive income presentation and the existing disclosures in U.S. GAAP, which are reliable, well understood and provide relevant decision making information.

Accordingly, in order to achieve convergence, we believe that certain changes are required to the IASB's ED to ensure it is more robust, practical, operational and usable by preparers and users of financial statements. For example, such specific changes to the IASB's ED would include:

- addressing many of the issues related to the application of the Premium Allocation Approach, such as the one year bright-line criteria for defining short-duration contracts, the discounting of future premiums and the onerous contracts test (see Question 8 of our response letter to the IASB's ED);
- requiring the use of one single composite margin (as favored by the Board) given it is more easily understood by users and is simpler to apply (see Questions 4, 5 and 6 of our response letter to the IASB's ED);
- removing the proposal to include an illiquidity premium in the discount rate applied to reserves and instead requiring the use of a current risk-free rate to discount reserves (see Question 3 of our response letter to the IASB's ED);
- retaining the traditional performance presentation rather than the summarized margin presentation (see Question 14 of our response letter to the IASB's ED);
- addressing a number of specific issues related to reinsurance contracts as well as conceptual issues related to consistency, measurement and recognition (see our response to Question 16 of the IASB's ED);
- focusing disclosures on providing meaningful and decision useful information rather than requiring so many voluminous disclosures at too low a level to be meaningful (see Question 14 of our response letter to the IASB's ED); and
- addressing the transition provisions given their depressing effect on future net income and the impact on comparability between periods (see Question 17 of our response letter to the IASB's ED).

In addition to the reasons discussed above, we believe the above listed changes are required to the IASB's ED to ensure that the costs associated with the application and implementation of the ED are reasonable and do not outweigh the benefits (see Question 19 of our response letter to the IASB's ED).

We strongly believe that the Board should continue to move towards convergence with the IASB. While we agree with a number of the key proposals outlined in the Board's DP and the IASB's ED, we disagree with certain significant areas of both documents. We believe that the existing non-life accounting model, the traditional statement of comprehensive income presentation and existing disclosures provided for in U.S. GAAP are both strong, reliable, well understood by preparers and users of financial statements and provide relevant decision making information. As such, they do not require a major overhaul. Accordingly, we believe that it is important that

PartnerRe

the Board continues to work closely with the IASB to make changes in response to the comments received from the (re)insurance industry and resolve current differences between the Board's and the IASB's views in order to achieve convergence on a global and comprehensive accounting standard for insurance contracts.

Yours faithfully,



Bill Babcock

Executive Vice President and Chief Financial Officer

PartnerRe

APPENDIX A

November 30, 2010

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: International Accounting Standards Board Exposure Draft “Insurance Contracts”

Dear Sir:

We appreciate the opportunity to provide input into the establishment of a global accounting standard for Insurance Contracts. We fully support the development of a single, global, high quality financial reporting and accounting standard for insurance contracts. We have drafted our responses to focus on significant comments only, relating to the International Accounting Standards Board’s (Board) “Insurance Contracts” Exposure Draft (ED), as it is currently drafted.

In summary, the following represent the significant areas of the ED which we agree or disagree with. We have also provided a cross-reference to the location of our more substantive comments related to each area to facilitate your review.

Agreement	Disagreement
Fulfilment cash flows – we support a fulfilment value model as this represents the most likely economic outcome (i.e. obligations will be fulfilled rather than exited). We agree that assumptions underlying the measurement of insurance liabilities should be periodically reviewed and changed, if appropriate. However, we do not consider it necessary to unlock or change assumptions every time actual experience and expected experience differ unless the change is expected to be sustained and significant, which can only be judged over time based on underlying trends rather than an injudicious response to immature data (see response to Question 2).	Risk adjustment and residual margin – we prefer the composite margin approach (see our response to Questions 4, 5 and 6).

PartnerRe

Agreement	Disagreement
<p>Risk free rate - we fully support the concept of discounting of reserves. However, we do not agree with the proposal to include an illiquidity premium given it has no relevance to the economics of an insurance contract or the fulfilment model concept (see our response to Questions 3a and 3b).</p>	<p>Premium allocation approach (PAA) – we believe that the existing non-life accounting model is both strong and well understood by users of financial statements and does not require a major overhaul. As such, we agree with the concept of a PAA for short-duration contracts that utilizes the existing Unearned Premium model with certain targeted improvements, such as discounting of reserves. However, we are in disagreement with many of the details in the ED related to the application of the PAA (for example, the one year bright-line criteria for defining short-duration contracts, the discounting of future premiums and the onerous contracts test) (see our response to Question 8).</p>
<p>Day one gains – we agree with the concept of not reflecting day one gains in the statement of comprehensive income (see our response to Question 6a).</p>	<p>Presentation – we do not believe that the summarized margin approach provides users of financial statements with meaningful information. We prefer a traditional presentation on the face of the statement of comprehensive income that maintains users focus on key performance measures. However, we do agree with the ED that all income and expenses arising from insurance contracts should be presented in the statement of comprehensive income (see our responses to Question 13).</p>
<p>Definition and scope – we agree with the proposals in the ED (see our response to Question 11).</p>	<p>Disclosure – we do not believe that the proposed disclosures provide meaningful or decision useful information to users. The prescribed disclosures are too voluminous and are required at too low a level to provide meaningful information. In addition, they will be overly burdensome to prepare and audit. We believe the Board should set the principles of disclosure and allow the industry to determine best practice and the appropriate level of disclosure (see our response to Question 14).</p>

Agreement	Disagreement
<p>Unbundling – we agree with the proposals in the ED (see our response to Question 12).</p>	<p>Reinsurance – we believe the ED currently gives rise to a number of specific issues related to reinsurance contracts as well as conceptual issues related to consistency, measurement and recognition (see our response to Question 16).</p>
	<p>Transition – we do not support the Board’s transition provisions given any residual margins related to in-force contracts at the date of transition will not be presented in any post-transition statement of comprehensive income, thereby depressing future net income and reducing comparability between periods. We prefer the FASB’s transition provisions (see our response to question 17).</p>
	<p>Benefits and costs – we do not currently believe that costs associated with the application of the ED, as it is currently drafted, are “reasonable” and do not believe that the benefits of the ED currently outweigh the costs. However, we remain supportive of developing a single, global, high quality accounting standard and we welcome the opportunity to comment on further proposals related to insurance contracts issued by the Board (see our response to Question 19).</p>

Question 1 – Relevant information for users (paragraphs BC13–BC50)

Do you think that the proposed measurement model will produce relevant information that will help users of an insurer’s financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

As primarily a writer of short-duration contracts we are fully supportive from a conceptual standpoint of using a simplified method for short-duration contracts. We believe that the existing non-life accounting model is both strong and well understood by users of financial statements and does not require a major overhaul. As such, we agree with the concept of the Premium

PartnerRe



Allocation Approach (“PAA”) for short-duration contracts which utilizes the existing Unearned Premium model with certain targeted improvements, such as discounting of reserves (see our response to Question 8). However, we also feel that the proposed PAA measurement model is unnecessarily complicated and arduous, as discussed later in this document.

With respect to the building blocks measurement model (for contracts that do not meet the conditions to use the PAA), we do not believe that the measurement model will produce relevant information for users. Key metrics such as gross premiums written that are currently used by financial statement users to measure the volume and growth of the (re)insurance business is not contemplated. Furthermore, we believe the information produced by the building blocks measurement model will be very subjective, given it will be driven by numerous estimations and assumptions that are unlikely to be consistently determined between (re)insurers, and will not fully reflect information that management would use internally to measure the performance of a portfolio of contracts. In addition, the disaggregated disclosures to further analyze the components of the underwriting margin and experience variance and changes in assumptions are overly burdensome, too voluminous and complex and are likely to confuse users of financial information.

Question 2 – Fulfilment cash flows (paragraphs 17(a), 22–25, B37–B66 and BC51)

(a) Do you agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract? Why or why not? If not, what do you recommend and why?

We support a fulfilment value model, which assumes the fulfilment of contractual terms with policyholders in the normal course of business pursuant to the terms of the underlying contracts, and is based upon entity specific inputs that would generally not rely upon market views. We believe this is the most appropriate measurement basis because it represents the economic cost of the liability based on the most likely outcome that the obligation will be fulfilled.

The ED requires that cash flow estimates be updated each period and changes in estimates reported in earnings. We agree that assumptions underlying the measurement of insurance liabilities should be periodically reviewed and changed, if appropriate. We do not consider it necessary to unlock assumptions every time actual experience and expected experience differ unless the change is expected to be sustained and significant, which can only be judged over time based on underlying trends rather than an injudicious response to immature data.

As described in more detail in our response to Question 8, we do not believe that it is appropriate to present value the future cash inflows (premiums) for short duration (non-life) contracts.

PartnerRe



(b) Is the draft application guidance in Appendix B on estimates of future cash flows at the right level of detail? Do you have any comments on the guidance?

We have no comments.

Question 3 – Discount rate (paragraphs 30–34 and BC88–BC104)

(a) Do you agree that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

We agree that the use of a risk-free rate of interest reflecting the insurance contract liability (i.e. taking into account the currency and duration risks) is an appropriate approach to discounting reserves. In our opinion, the use of a rate based on the assets backing the liability would reduce the level of comparability of liabilities between (re)insurers for users of the financial statements. Using an asset approach would require each (re)insurer to hypothetically allocate assets to each of the portfolios of liabilities for which the (re)insurer is measuring the liability; it would also introduce inconsistencies between (re)insurers due to, for example, different levels of duration/cash flow matching and different asset risk profiles between (re)insurers. We also believe that the spread above the risk free rate represents various attributes of an investment, including credit risk, and it would be inappropriate to include such risks in determining the valuation of the (re)insurance obligation, as the two are independent.

(b) Do you agree with the proposal to consider the effect of liquidity, and with the guidance on liquidity (see paragraphs 30(a), 31 and 34)? Why or why not?

We do not agree with the proposal to include an illiquidity premium on the risk-free discount rate. Parties to a contract have no desire to trade future cash flows once the policy is in force and as such an illiquidity adjustment has no relevance to the economics of a non-life insurance contract. Furthermore, an illiquidity premium is not consistent with the concept of fulfilment value.

Currently there is no guidance on the calculation of an illiquidity premium and so additional levels of subjectivity and management judgment are brought into the measurement process. Accordingly, unless specific guidance is provided then this will only result in a lack of comparability across the (re)insurance industry.

PartnerRe

(c) Some have expressed concerns that the proposed discount rate may misrepresent the economic substance of some long-duration insurance contracts. Are those concerns valid? Why or why not? If they are valid, what approach do you suggest and why? For example, should the Board reconsider its conclusion that the present value of the fulfilment cash flows should not reflect the risk of non-performance by the insurer?

We believe that own credit risk is not a relevant characteristic of a liability as the fulfilment value of the insurance liability does not change because of changes in the credit status of the (re)insurer. Furthermore, to create additional shareholders' equity by discounting at rates which reflect the credit status of the (re)insurer is inappropriate, as shareholders' only have a right to capital once (re)insurance obligations are settled in full.

Question 4 – Risk adjustment versus composite margin (paragraphs BC105–BC115)

Do you support using a risk adjustment and a residual margin (as the IASB proposes), or do you prefer a single composite margin (as the FASB favours)? Please explain the reason(s) for your view.

We support the use of a single composite margin, as defined by the Financial Accounting Standards Board (FASB), and do not support the concept of accretion / amortization of interest on a residual or composite margin. The concept of the composite margin is more easily understood by users of the financial statements and is simpler for (re)insurers to apply. The use of a risk adjustment and residual margin, even based on the three specified approaches in the ED, would lead to a lack of comparability among (re)insurers in how the risk adjustment is calculated and would bring a significant amount of judgment into the financial statements. We do not see any benefit to users or preparers of financial statements from allocating the margin into a risk adjustment and a residual margin.

Question 5 – Risk adjustment (paragraphs 35-37, B67-B103 and BC105–BC123)

As described in our response to Question 4, we support the use of a single composite margin approach and as such this would not lead to the need to calculate a risk adjustment. However, on the basis that the final insurance contracts standard issued by the IASB is not in favor of the composite margin approach, we have the following comments related to the risk adjustment.

(a) Do you agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected? Why or why not? If not, what alternatives do you suggest and why?

PartnerRe

The ED's wording is such that the approach is appearing to move away from a fulfilment value to something more akin to an exit value basis, which is not consistent with the ED's overriding principle of the liability calculation. However, we would support a risk adjustment being built into management's best estimate of its post-claim liabilities to recognize the inherent risks with respect to existence, timing and uncertainty of future cash flows at each reporting period and which reflects changes in the risks over time. We believe there should be a consistency in approach between the risk adjustment calculated in the post-claim liabilities and the risk margin used within the (re)insurer's pricing and capital model for a given portfolio of contracts.

(b) Paragraph B73 limits the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation (CTE) and cost of capital techniques. Do you agree that these three techniques should be allowed, and no others? Why or why not? If not, what do you suggest and why?

We do not believe that it is appropriate to mandate a single or limited number of techniques as this would preclude the development of new actuarial techniques for determining risk margins and preclude the use of management judgment if it is considered other methods are more appropriate in certain instances. The final standard should identify the overarching principles, rather than prescribing certain allowable techniques, for estimating the risk adjustment to ensure consistency with the objectives of the standard. This principles-based approach would also allow for the evolution of industry actuarial best practices to occur and also provide management with a certain degree of flexibility if they wish to align techniques used for GAAP purposes with techniques used for other regulatory or internal capital purposes.

(c) Do you agree that if either the CTE or the cost of capital method is used, the insurer should disclose the confidence level to which the risk adjustment corresponds (see paragraph 90(b)(i))? Why or why not?

We believe that if a risk adjustment approach is to be used there should be transparency within the financial statements around the risk metrics that would allow some level of comparability between (re)insurers to be achieved regardless of the approach used to determine the risk adjustment. However, the level of comparability will be limited if the only requirement is to disclose the actual (or implied) confidence level used since the variation in the methodology and assumptions used to develop the risk adjustment will likely lead to different results even if used to measure the same underlying exposures. It could also lead companies to adopt the confidence level approach for efficiency reasons when a different method could be more appropriate in the circumstances. As such, we believe that while there are definite benefits of requiring disclosure relating to the choice and results of the risk adjustment methodology used, the currently proposed approach is inappropriate and could in fact introduce some unintended bias.

PartnerRe

(d) Do you agree that an insurer should measure the risk adjustment at a portfolio level of aggregation (i.e. a group of contracts that are subject to similar risks and managed together as a pool)? Why or why not? If not, what alternative do you recommend and why?

We believe that it would not be appropriate to measure a risk adjustment at an individual contract level since this would ignore the inherent diversification benefits of insurance. In general, (re)insurers manage their business at a portfolio level and will likely allocate capital for pricing and performance measurement purposes at this level – e.g. by geography and line of business. We strongly believe that the beneficial effects of diversification within a portfolio should be reflected in the calculation of the risk adjustment and as such we agree that if a risk adjustment is required it should be measured at the portfolio level of aggregation. We also believe that the additional diversification benefit across portfolios should also be reflected to some extent within the risk adjustment for the post-claims liability.

(e) Is the application guidance in Appendix B on risk adjustments at the right level of detail? Do you have any comments on the guidance?

No comments.

Question 6 – Residual/composite margin (paragraphs 17(b), 19–21, 50–53 and BC124–BC133)

(a) Do you agree that an insurer should not recognise any gain at initial recognition of an insurance contract (such a gain arises when the expected present value of the future cash outflows plus the risk adjustment is less than the expected present value of the future cash inflows)? Why or why not?

Yes, we believe that a (re)insurer should not reflect the expected profit in a contract on day one. Furthermore, we believe that a day one gain should be earned over the coverage period in line with the underlying exposure. Recognizing gains at the initial recognition of a contract is contrary to most generally accepted accounting principles and conceptually it does not make sense to recognize a profit before the coverage period has commenced under the contract (which under the ED could even be before the exposure period begins).

(b) Do you agree that the residual margin should not be less than zero, so that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss (such a loss arises when the expected present value of the future cash outflows plus the risk adjustment is more than the expected present value of future cash inflows)? Why or why not?

PartnerRe

Yes, we agree that any loss due to onerous contracts should be reflected at initial recognition in accordance with most generally accepted accounting principles. However, this loss should be calculated at the portfolio level of aggregation rather than at the individual contract level.

(c) Do you agree that an insurer should estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period? Why or why not? If not, what do you recommend and why?

We believe that the residual or composite margin should be estimated at a portfolio level consistent with the risk adjustment. There may be some practical difficulties in determining the residual margin at a level below the portfolio level since the calculation of a risk adjustment below the portfolio level would need to be allocated by underwriting year. If the risk adjustment is calculated below the portfolio level this would lead to additional work and the overall risk adjustment would tend to be higher since some of the diversification benefit would be lost at a level of aggregation below the portfolio level. In addition, the Board should clarify the definition of “by similar date of inception of the contract” being mindful of the practical difficulties of setting this at a level lower than underwriting year.

(d) Do you agree with the proposed method(s) of releasing the residual margin? Why or why not? If not, what do you suggest and why (see paragraphs 50 and BC125–BC129)?

Paragraph 50 of the ED requires the recognition of the residual margin determined at initial recognition to profit and loss over the coverage period in a systematic way that best reflects the exposure from providing the coverage. While we favor the composite margin approach as discussed in our response to Question 4, we believe that if the residual margin approach was selected, the current proposed method of releasing the residual margin is appropriate. Since we agree that the residual margin represents compensation for a number of factors relating to the costs of providing coverage (as listed in paragraph BC125 of the ED), it is conceptually appropriate to release it over the coverage period. As noted in our response to Questions 4 and 6f, we do not agree with the concept of accruing and amortizing interest on the residual margin.

(e) Do you agree with the proposed method(s) of releasing the composite margin, if the Board were to adopt the approach that includes such a margin (see the Appendix to the Basis for Conclusions)? Why or why not?

Yes, we agree that this would be an appropriate method of releasing a composite margin as a composite margin combines characteristics of a residual margin (which as discussed above should be earned over the coverage period) and compensation for the risks relating to the claim settlement cash flows (which should be earned over the claims settlement period).

PartnerRe



(f) Do you agree that interest should be accreted on the residual margin (see paragraphs 51 and BC131–BC133)? Why or why not? Would you reach the same conclusion for the composite margin? Why or why not?

No, we disagree. For short-duration non-life contracts the additional complexity of accreting interest on the residual margin would exceed the limited additional benefits to users of the financial statements. We would also reach the same conclusion to not accrue and amortize interest on the composite margin for the same reasons; as such we support the FASB's proposal.

Question 7 – Acquisition costs (paragraphs 24, 39 and BC135–BC140)

(a) Do you agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not? If not, what do you recommend and why?

We agree with the proposed approach of including incremental acquisition costs in the initial measurement of the insurance contract outflows. We believe that acquisition costs should generally not result in a loss at initial recognition of an insurance contract (unless the contract is deemed onerous). Acquisition costs form part of pricing decisions made by underwriters and should therefore be factored into the determination of the profit that is released over the coverage period of the contract. We also agree that only incremental direct acquisition costs should be factored into the calculation in order to eliminate potential levels of subjectivity (which would arise if other indirect costs, which would vary between different companies, were allowed to reduce the residual margin) from the process, which will therefore enhance comparability between (re)insurers.

Question 8 – Premium allocation approach (PAA)

(a) Should the Board (i) require, (ii) permit but not require, or (iii) not introduce a modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts? Why or why not?

(b) Do you agree with the proposed criteria for requiring that approach and with how to apply that approach? Why or why not? If not, what do you suggest and why?

We have opted to answer Question 8(a) and 8(b) together as we believe the answers are dependent on each other.

PartnerRe



We support the overall concept of having a PAA for short-duration contracts as we believe that the existing non-life accounting model does not require a major overhaul. Users of (re)insurance company financial statements are familiar with and understand the existing accounting models used by those (re)insurers. As such, we agree with the concept of a PAA for short-duration contracts that utilizes the existing Unearned Premium model with certain targeted improvements, such as discounting of reserves to better reflect the true economic cost of settling insurance liabilities in the future. However, we do have some major disagreements related to the detailed application of the PAA which are described further below (the condition outlined in paragraph 54(a), discounting future premiums and the onerous contracts test). The PAA was intended to provide a practical short-cut method for short-duration contracts, however, as currently drafted the ED does not provide this nor does the PAA currently represent an improved model compared to the existing non-life accounting model.

Discounting future premiums

Paragraph 57(a) currently states that the insurer should measure its pre-claims obligation by including any future premiums that are not received at initial recognition of the contract, at their expected present value. In other words, the (re)insurer should discount premiums that are to be received on an installment basis related to contracts that are approximately one year or less. Moreover, paragraph 59 outlines that the insurer should update the discount rate applied to its pre-claims liability each reporting period. Our major concerns related to the practical application of this PAA methodology are as follows:

- the requirement to discount future premiums that are not due immediately at the date of the contract inception. This represents a significant change and added operational complexity compared to the measurement approach currently used for non-life short-duration insurance contracts. We believe discounting of future premiums on short-duration contracts is meaningless given the short-term nature of the premium receivables and will add minimal or no benefit to the users of financial information.
- the requirement to update the discount rate applied to discount the future premiums each reporting period is onerous, increases operational complexity and is meaningless for the same reasons described above. It will also add minimal or no benefit to the users of financial information.

Paragraph 54(a) – conditions of a short-duration contract

Paragraph 54(a) currently conditions that the modified measurement model for short-duration contracts can only be applied to contracts with a coverage period of approximately one year or less. We would recommend that the Board replace the existing bright-line condition of “approximately one year or less” in paragraph 54(a) with a broader “all non-life contracts” condition, which would align with the Board’s objective of producing a principles based standard. The Board should then also define “all non-life contracts” and we have provided a suggestion below.

PartnerRe



While the coverage period of substantially all non-life contracts is one year or less, broadening this condition would alleviate the inevitable inconsistencies and practical systems difficulties that would be created as highlighted by the following examples:

- non-life contracts are often written on a one-off basis for a period in excess of one year to change the renewal date. In this case, the ED proposes that the contract would alternate between the different measurements models (PAA and building blocks) from one year to another;
- non-life reinsurance contracts written on a proportional basis (or quota share basis) have a coverage period that extends to two years or longer, as underlying one year non-life insurance contracts attach to the one year reinsurance policy. These contracts are non-life in nature and fit more appropriately into the modified method of measurement model; and
- where lines of non-life business include similar contracts in terms of underlying risks and exposures but with varying contract durations, some of which are less than one year and others are significantly greater than one year (e.g. some contracts in the engineering, surety or space / satellite lines of business can be written for anything from 6 months to 3 or 4 years depending on the underlying risk being insured). These contracts are managed internally together within a non-life portfolio of similar risks and exposures and externally reported together within segmental disclosures. The current ED supports different accounting models for contracts with similar risks and exposures that would potentially create a difference between the accounting presentation in the IFRS financial statements and Management's Discussion and Analysis (MD&A) of its segment results. In addition, the different accounting models would necessitate different systems to be used for similar contracts.

To alleviate the above inconsistencies, we suggest a suitable definition of "all non-life contracts" would be the existing definition of short-duration contracts under generally accepted accounting principles in the United States (US GAAP) in Accounting Standards Codification (ASC) Topic No. 944-20-15-7 (previously FASB Statement No. 60 "Accounting for Insurance Contracts" (FAS 60)) as follows:

"the contract provides insurance protection for a fixed period of short duration and enables the insurer to cancel the contract or to adjust the provisions of the contract at the end of any contract period, such as adjusting the amount of premiums charged or coverage provided".

The above definition from FAS 60 has proven itself to be both robust and to provide the appropriate level of guidance over a significant period of time. It is also well understood by both preparers and users of financial statements. The above FAS 60 definition could also be expanded to clarify that the PAA specifically includes non-life reinsurance contracts to address the issues identified above related to the coverage periods of non-life contracts extending beyond one year.

PartnerRe



Onerous contracts

We generally concur with the conceptual requirements related to onerous contracts in paragraph 60. Paragraph 60 requires the (re)insurer to measure the additional liability by aggregating the insurance contracts into a portfolio, and within a portfolio, by similar dates of inception using the building block model. However, we believe that the requirement to test contracts using the four building blocks approach to determine whether they are onerous at each reporting period is too burdensome. Requiring the use of the four building blocks approach to perform this test defeats the short-cut method objective of using the PAA.

In addition, we also believe the requirement to aggregate contracts by similar dates of inception adds unnecessary operational complexity by requiring portfolio analysis at a significantly lower level of aggregation. We consider that existing practice of measuring and aggregating onerous contracts at the portfolio level is appropriate.

Overall comments on Premium Allocation Approach

If the Board were to require (re)insurers to use the PAA for all short-duration insurance contracts this will enhance the consistency and comparability of financial information. Permitting the use of alternative measurement approaches would result in inconsistent treatment for similar types of short-duration contracts between companies and, possibly, accounting differences within the same company for similar contracts. However, as discussed above, we have major concerns related to both the practical application of the PAA and the condition outlined in paragraph 54(a), that both need to be readdressed in a revised ED before we would support the PAA as currently drafted being required for short-duration contracts. We also believe the onerous contract test should not be determined using the four building blocks approach or measured within a portfolio by similar dates of inception.

While we support the overall concept of having a PAA for short-duration contracts, the PAA requires readdressing. We strongly suggest that the Board consider implementing the existing Unearned Premium model used in the non-life (re)insurance industry to eradicate the concerns, practical application difficulties and inevitable inconsistencies that the current ED will produce.

We also believe that if the PAA as currently drafted is included in the final standard, then the Board should issue more guidance related to the practical application of the transition from the pre-claims liability (PAA) to the post-claims liability (four building blocks).

Question 9 – Contract boundary principle

Do you agree with the proposed boundary principle and do you think insurers would be able to apply it consistently in practice? Why or why not? If not, what would you recommend and why?

We agree with the contract boundary as defined in the ED. For life business we believe that in order to achieve a consistent application, the Board should provide more extensive application guidance. For example, additional guidance is necessary related to the treatment of voluntary additional premium on existing saving contracts, where the volume of future premium is hard to assess as it is based on voluntary contributions. Future voluntary contributions (even at a known price) should be excluded from the contract boundary, since it will lead to a difficult assessment of liabilities.

Question 10 – Participating features

(a) Do you agree that the measurement of insurance contracts should include participating benefits on an expected present value basis? Why or why not? If not, what do you recommend and why?

(b) Should financial instruments with discretionary participation features be within the scope of the IFRS on insurance contracts, or within the scope of the IASB's financial instruments standards? Why?

(c) Do you agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity? Why or why not? If not, what do you recommend and why?

(d) Paragraphs 64 and 65 modify some measurement proposals to make them suitable for financial instruments with discretionary participation features. Do you agree with those modifications? Why or why not? If not, what would you propose and why? Are any other modifications needed for these contracts?

We do not have any significant comments.

Question 11 – Definition and scope

(a) Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

(b) Do you agree with the scope exclusions in paragraph 4? Why or why not? If not, what do you propose and why?

(c) Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

We generally support the Board's view on the definition and scope of an insurance contract and do not have any significant comments.

Question 12 – Unbundling

Do you think it is appropriate to unbundle some components of an insurance contract? Do you agree with the proposed criteria for when this is required? Why or why not? If not, what alternative do you recommend and why?

We generally support the Board's view on unbundling an insurance contract. We would recommend that the Board provide greater clarification and guidance of the “closely related to the insurance coverage specified in the insurance contract” principle.

Question 13 – Presentation

(a) Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?

No. We believe that the currently proposed summarized margin presentation will result in financial statements that are prepared in accordance with GAAP becoming less useful to investors, analysts and creditors. As such we expect the users will request management to present certain additional non-GAAP financial information to enable them to assess financial performance within other externally published financial information, such as press releases or financial supplements. As such these users will place greater focus and importance on other

PartnerRe



externally published financial information rather than financial statements prepared in accordance with IFRS.

However, we are supportive of the Board's disaggregated approach to the presentation in the statement of comprehensive income for short-duration contracts as outlined in paragraph 75(a) of the ED. This approach retains the existing traditional presentation and allows management and users to maintain their focus on traditional key performance measures (loss ratios, technical ratios and combined ratios), albeit adjusted to reflect the discounting of loss reserves which we support. Accordingly, we would recommend that the optionality, currently drafted in the ED, allowing the disaggregated information to be disclosed either on the face of the statement of comprehensive income or in the footnotes, is removed to require this to be presented on the face of the statement of comprehensive income in order to improve consistency of reporting and transparency for both the PAA and the building blocks measurement models.

We are not supportive of the Board's proposed summarized margin presentation for contracts that do not qualify as short-duration contracts. The summarized margin presentation does not produce a meaningful display of the key performance metrics for (re)insurance contracts (being premiums, life policy benefits and expenses). A key performance measure of whether a company is growing or shrinking is its revenue and growth therein, which is relatively objective and reliably determined. To exclude one of the most fundamental key performance measures within the industry from the face of the statement of comprehensive income significantly reduces the importance and usefulness of the statement of comprehensive income. We believe that there is a disconnect between the proposed presentation and the key information that management will use to internally assess its performance and make operating decisions. While, the Board proposes disclosure of additional information in the footnotes to the financial statements, the proposed presentation on the face of the statement of comprehensive income lacks transparency and will confuse most users of financial statements. We recommend that the Board retain a more traditional presentation on the face of the statement of comprehensive income, with additional disclosure of the underwriting margin and experience adjustments presented in the footnotes.

(b) Do you agree that an insurer should present all income and expense arising from insurance contracts in profit or loss? Why or why not? If not, what do you recommend and why?

We believe that reporting financial performance in the statement of comprehensive income is one of the most important elements of a new global accounting model for insurance contracts. As such we believe that (re)insurers should consistently present all income and expenses arising from insurance contracts, and their related assets, in profit or loss with no exceptions. This allows users of the financial statements to fully understand and measure the change in a company's total return from its portfolio of insurance contracts as well as the total return generated by its investment activities, other business and costs during each reporting period. Permitting the reporting and measuring of certain items outside of profit or loss will only serve to

reduce the transparency and comparability of financial information. The concept of including certain balances in other comprehensive income adds unnecessary complexity, leads to inconsistencies in application between (re)insurers and masks the impact of the change in the fair value of a company's total assets and liabilities in a reporting period.

Question 14 – Disclosures

(a) Do you agree with the proposed disclosure principle? Why or why not? If not, what would you recommend, and why?

The objective of the proposed disclosure requirements outlined in the ED is to help users of financial statements understand the amount, timing and uncertainty of cash flows arising from insurance contracts. Two areas are specifically highlighted as required to be disclosed: (a) the amount recognized in the financial statements arising from the insurance contracts and (b) the nature and extent of risks arising from the contracts. We agree with the concept of a high-level principle for the disclosure requirements. We also agree that the proposed disclosure principle as it is currently worded captures the information requirements of users of financial statements.

(b) Do you think the proposed disclosure requirements will meet the proposed objective? Why or why not?

Based on the level of prescribed disclosures in the ED, we disagree that the stated objective (as outlined in paragraph BC242 of the ED) of eliminating the need for detailed and prescriptive disclosures to meet the specific information needs for the various types of reinsurance contracts has been met. We believe that the level of disclosures currently required is too prescriptive and detailed to provide relevant and useful information and as such is not consistent with the objective of a high-level principled approach. The inclusion of prescriptive requirements at an operating segment (or lower) level, the number of reconciliations required as the insurance liability component level as well as quantitative and qualitative descriptions of potential risks and measurement uncertainties will create a volume of information that may not be easily understood by users of financial statements or even be relevant to the understanding of an enterprise's insurance contract related balances and exposures. In addition, the level of disclosure requirements is overly burdensome and will significantly increase both the preparation time and audit cost.

As stated in paragraph 80 of the ED, the onus is on the (re)insurer to disclose whatever information is necessary to meet the overall disclosure objective. We believe that this principle should be more closely followed by the Board in the final standard and will mean that industry best practices will evolve to ensure that a consistent and appropriate level of disclosure is provided. As such we do not believe that providing detailed disclosure requirements is in the spirit of the proposed objectives.

PartnerRe



As a general comment, we would respectfully suggest that an increased volume of detailed disclosures and reconciliations should not be seen as a supplement to, or substitute for, the application of an inappropriate accounting model (see our responses to Question 8).

We have outlined our specific concerns under part (c) below.

(c) Are there any disclosures that have not been proposed that would be useful (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful.

We believe that the level of aggregation suggested in paragraph 84 of the ED – “*type of contract or geography*” is at a level that is too low to provide relevant information to the users of financial statements and at a lower level than management would typically use for internally reporting purposes. We suggest that the Board’s approach should consider providing certain limited, but more important, disclosures at the operating segment level, as required by paragraph 83, while providing other disclosures and reconciliations at the company level would be more than adequate to meet the needs of the users without contributing to the volume of information in the financial statements.

While we believe that there is value in providing a reconciliation of balances that result from the new measurement model, we believe that the level of detail required in the reconciliation is too significant. For example, we do not see a value in splitting up payments made between claims and benefits, expenses, incremental acquisition costs and other cash paid. We believe that a more summarized approach to the reconciliations showing key inflows and outflows would be more useful to the users of the financial statements.

In paragraph 90(d), the ED introduces the concept of “*measurement uncertainty*” analysis which requires a detailed analysis of inputs that could have a material effect on the financial statements. This requires a sensitivity disclosure of the effect of using different amounts as inputs that could have been reasonably used and that would have resulted in a higher or lower measurement, and the way in which the (re)insurer calculated that effect. We believe that the additional disclosures provided to meet this requirement will add a significant volume of information that will serve to confuse the users of the financial statements given it is too conceptual. Given all of the estimates included in the building block approach, it is not considered feasible or appropriate to produce the various sensitivity analyses focusing on changes in one input variable. Also, (re)insurers may not be willing to disclose some of the requested information related to risk considerations on the grounds of it being considered proprietary information. As discussed below, the additional requirements will place significant pressure on an already time-constrained closing process as well as providing a challenge to (re)insurers’ systems to produce accurate sensitivity analysis.

PartnerRe



Paragraph 90(a) of the ED requires the qualitative disclosure of the measurements that have the most material effect on the recognized amounts arising from insurance contracts, the methods used and processes for estimating the inputs to those methods, and when practicable, the provision of quantitative information about those inputs. We note that SEC filers currently provide a similar disclosure within MD&A, outside of the financial statements, related to loss reserves. We believe that this type of qualitative disclosure is more appropriate for inclusion in the MD&A, rather than audited financial statements. It should also be noted that including this type of sensitivity analysis in the financial statements of SEC registrants will bring certain controls and processes that are currently out of scope for management's report on internal controls over financial reporting (Sarbanes-Oxley compliance) into scope, thereby increasing both the preparation burden and audit costs. For non-SEC filers, this information could be provided in other published financial information.

With regards to the significant disclosures in paragraph 91 to 97 inclusive of the ED relating to the (re)insurer's exposures to risks and how they arise, the (re)insurer's objectives, policies and processes for managing risks as well as methods used to manage these risks, including quantitative information, we believe again that such disclosures should not be part of the audited financial statements. Such disclosures, to the extent that they are focused on material impacts and as long as they are considered useful and relevant to users of financial statements, are more appropriate for inclusion in the MD&A, or other published financial information for non-SEC filers, given their qualitative nature and need for professional judgment.

Similarly, we believe that providing detailed quantitative information about insurance risk on a gross and net basis as described in paragraph 92(e)(i), before and after risk mitigation, and a sensitivity analysis for factors that were "*reasonably possible*" from both a qualitative and quantitative perspective, is a very onerous requirement that will provide very limited additional value to the users of financial statements. The provision of this information will significantly increase the volume of information provided. It is unclear why the additional disclosures would be required in addition to the "*measurement uncertainty*" disclosures already prescribed in the ED.

Relating to the additional useful disclosures, with the introduction of the expected loss model as part of the reinsurance asset measurement criteria, we would have expected that additional disclosures would have been required to discuss the (re)insurers approach to the identification of risks of the reinsurers default or dispute of a valid claim. See our response to Question 16(a).

Overall we believe that the currently proposed disclosure requirements are likely to be very challenging and onerous for (re)insurers and will provide a significant burden on actuarial and financial resources. In addition, these disclosures will be subject to an audit on an annual basis meaning specialist audit resources will need to be engaged, resulting in significantly increased audit fees. For SEC filers, the Board will need to clarify whether these disclosures are intended to be an annual or quarterly reporting requirement. We would strongly disagree with the level of disclosure in the ED becoming a quarterly reporting requirement as this would place undue

pressure on the already time-constrained financial close process and the existing 40-day quarterly reporting deadlines would need to be revised. If the Board wishes to provide some level of disclosure for quarterly reporting, then we strongly recommend that it focuses on significant changes compared to the previous audited financial statements only. In addition, as we noted in our response to Question 14(b), we strongly believe that the Board should set disclosure principles and allow industry best practice disclosures, and the level of detail and aggregation of those disclosures, to follow and evolve.

Question 15 – Unit-linked contracts

Do you agree with the proposals on unit-linked contracts? Why or why not? If not what do you recommend and why?

We do not have any significant comments.

Question 16 – Reinsurance

(a) Do you support an expected loss model for reinsurance assets? Why or why not? If not, what do you recommend and why?

We support the concept of an expected loss model for recognizing the risk of the reinsurer default or dispute of a valid claim. We consider the model to be consistent with the proposals in the ED and the measurement model that starts with the expected present value of cash flows. We also support the Board's views that the inclusion of an additional risk margin to reflect the risk that losses from defaults or disputes may ultimately exceed their expected value would add unnecessary additional complexity and cost to the reporting process. However, we are concerned about the potential levels of subjectivity that will be introduced during the process of estimating the expected default cash flows.

(b) Do you have any other comments on the reinsurance proposals?

Paragraph 45 of the ED states that the residual margin measured at initial recognition cannot be negative. This results in a day one gain being recorded if the expected present value of cash flows generated plus the risk adjustment exceed the consideration paid when entering into the contract. Conversely, the ED proposes that a day one loss will be deferred as a risk margin. The requirement to defer a day one loss and to recognize a day one gain is contrary to most other accounting principles. In addition, providing cedants with the ability to record day one gains upon entering into ceded reinsurance contracts will enable potential window dressing of

financial statements and manipulation of earnings by entering into such contracts close to period ends in order to boost profits. The recognition of this issue was one of the primary reasons for the issuance of FAS 113 “Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts” as part of US GAAP in December 1992. We believe that the Board should revisit the concepts underlying the residual margin as the ED is applying them to ceded reinsurance contracts.

The ED currently indicates that under certain circumstances a (re)insurer should account for its underlying short-duration policies using the PAA, subject to the contracts meeting the conditions in paragraph 54, but potentially use the building blocks approach to account for the ceded reinsurance contracts entered into relating to this business. This will create obvious inconsistencies of measurement, assumptions, presentation and comparability by using two different models to account for assumed and ceded business. While we support the concept that a reinsurer would account for reinsurance contracts it issues using the same recognition and measurement approach as insurance contracts (with an adjustment for credit risk as required), we believe that additional guidance is required to deal with issues that are specific to reinsurance contracts. Applying the recognition criteria in the ED¹ to reinsurance contracts implies that the timing of recognition of the reinsurance contract may be significantly different to both the date (re)insurance coverage begins and the timing of the cedant’s underlying policies. It is not clear how this situation will be reflected in the financial statements of the insurer or reinsurer and its impact on measurement over the coverage period.

The current guidance does not specifically address the differing variety of contracts that will qualify for reinsurance accounting. Given the issues related to the ED’s approach to reinsurance contracts as described above in our response to this question, as well as other issues specific to reinsurance such as the treatment of loss portfolio transfers, commutations, other retroactive arrangements etc., we believe it would be appropriate for the Board to provide additional guidance related to reinsurance contract considerations.

Question 17 – Transition and effective date

(a) Do you agree with the proposed transition requirements? Why or why not? If not, what would you recommend and why?

The ED’s transition approach proposes that a (re)insurer recognizes a risk adjustment for each portfolio of insurance contracts at the transition date, but would not recognize any residual margin. As a result, a (re)insurer will not recognize any residual margin in the statement of comprehensive income for any subsequent periods related to in-force contracts at the date of

¹ “an insurer shall recognize an insurance contract liability or an insurance contract asset when the insurer becomes a party to the insurance contract”.

PartnerRe



transition. This will have the impact of depressing net income reported for those in-force contracts in post-transition periods. We believe that this approach is inappropriate and will cause significant inconsistency and comparability issues between different periods and the understatement of earnings which will be very difficult to explain to the users of the financial statements.

We are also unclear as to whether the PAA will be the required short-cut method to be used for the relevant short-duration contracts in force (i.e. those with remaining coverage periods) on the day of transition. The ED should be expanded to be clear on this matter.

Subject to the answer to the PAA query above, overall we believe that an approach similar to the composite margin discussed under part (b) below, where the difference between the carrying value of the contract pre- and post-transition would be amortized over the remaining coverage and settlement periods, would be a superior approach as it will better serve as an indicator of profitability of the in-force contracts at the date of transition. We also believe that any required adjustments to eliminate deferred acquisition costs and certain other related intangibles at the date of transition should be considered as part of this composite margin calculation and should be released into income over the remaining coverage and settlement periods.

(b) If the Board were to adopt the composite margin approach favoured by the FASB, would you agree with the FASB's tentative decision on transition (see the appendix to the Basis for Conclusions)?

Yes, as described in our response to part (a) above, we believe that the composite margin approach is preferable. In addition to our response in part (a) above, our preference is based on our view that remeasuring the risk adjustment at each period subsequent to transition would be extremely onerous and provide limited additional benefit. The amortization of the composite margin over the remaining coverage and settlement periods without the remeasurement provides appropriate and useful information without the unnecessary complexity and cost associated with the risk adjustment re-estimation process.

(c) Is it necessary for the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9? Why or why not?

We believe that it is appropriate that the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9 "Financial Instruments". The alignment of the effective dates will allow (re)insurers to present their results of operations and their balance sheet in a consistent and economic position, by allowing the assets and liabilities to be appropriately matched.

An alignment would also ensure that (re)insurers are not subject to the adoption of two major standards over a short period of time. If the effective dates of the standards were not aligned,

PartnerRe



any financial statements prepared for the intervening transition period(s) would be less meaningful to users of financial statements.

(d) Please provide an estimate of how long insurers would require to adopt the proposed requirements.

This is a difficult question to answer given some of our responses above, as well as the uncertainty that is being created by the fact that the final insurance contracts standard is presently somewhat of a “moving target” given the existing differences between the ED and the FASB’s insurance contracts discussion paper, while both the Board and the FASB have acknowledged convergence as an objective. Given some of the responses above and the final standard being a “moving target”, further interpretive guidance will still be required for us to definitively estimate how long (re)insurers will need to adopt the proposed requirements.

Notwithstanding the above, given the significance of the proposed changes, the required changes to the company’s underlying financial reporting and actuarial systems, changes to processes and internal controls and the additional pressures placed on skilled resources, we believe that a lead time of at least 18 - 24 months from the finalization of the insurance contracts standard (assumed to be June 30, 2011) to the date of its initial application would be appropriate. For SEC filers, this would result in an effective date for the new standard, at the earliest, of January 1, 2015 given SEC filers must provide two years of comparative data in financial statements incorporated into a Form 10-K. Accordingly, an SEC filer’s financial statements for the year ended December 31, 2015 would include statements of comprehensive income for the three-years ended December 31, 2015, 2014 and 2013 prepared under the new insurance contracts standard. This date assumes that the new insurance contracts standard will be finalized by June 30, 2011. Any delay in the finalization of the new insurance contracts standard would further delay its effective date.

The tentative effective date of January 1, 2013 (with two years of comparative financial information) equates to the application of IFRS commencing on January 1, 2011, which is not practical and completely unachievable taking into consideration the period required for due process of the ED, the significant challenges in understanding all of the new technical aspects outlined in the ED and the significant impacts created by the ED on data collection and systems configuration.

In addition, and assuming the SEC decides to require its filers to report in accordance with IFRS, the SEC will need to clarify how registrants present their summary financial information in the five-year data table in accordance with Item 6 of the SEC’s Form 10-K reporting requirements. If this necessitates further “pro-forma” information for an additional two years of comparative information, this will further increase the reporting and resource burden on SEC filers and will require additional lead time to produce.

Question 18 – Other comments

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

Paragraph 14 – recognition criteria

We recommend that the Board reassesses the recognition criteria outlined in paragraph 14 to record an insurance contract on the earlier of the date the contract is bound and the date the (re)insurer is first exposed to risk. We suggest that paragraph 14(a) is deleted, and paragraph 14(b) is modified to specify that an insurance contract is recorded on the date the (re)insurer is first exposed to risk, which is at the beginning of the coverage period. We do not believe that there is value in recording liabilities related to insurance contracts on the balance sheet before the coverage period begins as this would be inappropriately onerous, affect comparability between (re)insurers, potentially misstate certain balance sheet items and impact disclosure requirements as of a period end reporting date.

In addition, recording insurance contracts on the date they are bound has potentially significant consistency of application issues between (re)insurers unless the term “bound” is more explicitly defined (i.e. is this a signed insurance contract, is this a signed slip detailing the key terms, is this an email between the parties agreeing to the key terms etc.?).

Question 19 – Benefits and costs

Do you agree with the Board’s assessment of the benefits and costs of the proposed accounting for insurance contracts? Why or why not? If feasible, please estimate the benefits and costs associated with the proposals.

No. The Board states the following in paragraph BC 263 of the ED “On balance, the Board concluded that the proposed IFRS would improve the financial reporting of insurance contracts at a reasonable cost. In developing the proposed IFRS, the Board concluded that, for some short-duration insurance contracts, the cost of applying some aspects of the proposed IFRS might exceed the benefits. Consequently, for those contracts, the Board decided to simplify the measurement ...”.

As we have noted throughout our response, the existing non-life accounting model is both strong and well understood by users of financial statements and does not require a major overhaul. As such, while we agree with the concept of a PAA for short-duration contracts that utilizes the existing Unearned Premium model (with certain targeted improvements, such as discounting of

PartnerRe



reserves), we do not believe the current ED represents an improvement in the financial reporting of short-duration insurance contracts.

We believe that the costs of implementing the ED from a non-life perspective currently far outweigh the benefits. We do recognize some additional benefits from the ED for life insurance accounting.

The costs of implementing the ED include the following, which is not intended to be an exhaustive list:

- implementing new, or making modifications to, accounting and actuarial systems and interfaces and the associated impacts on operational and reporting processes;
- increasing actuarial and accounting resources;
- US GAAP reporting entities needing to run parallel reporting systems for at least 2 years until the full transition to IFRS is made (see our response to Question 17(d));
- increased consulting fees as management assesses the impacts of these changes on other areas of the company e.g. determining the changes to tax reporting bases in various jurisdictions, assessing the impact on compensation and equity award structures that use current GAAP as their basis and assessing the impact, if any, on certain lines of business written;
- increased audit fees; and
- the time that will be spent at senior levels of an organization testing, reviewing, analyzing and communicating the results both internally and externally.

We do not believe that these costs will be “reasonable”.

However, as we noted in the opening paragraph of our response, we do fully support the development of a single, global, high quality financial reporting and accounting standard for insurance contracts and we welcome the opportunity to be able to comment on further proposals from the Board related to insurance contracts.

Yours faithfully,



Bill Babcock

Executive Vice President and Chief Financial Officer