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February 11, 2011

Sir David Tweedie, Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH, United Kingdom Ms. Leslie F. Seidman, Chairman Financial Accounting Standards Board 401 Merrit 7 Norwalk, CT 06856-5116

Re: Insurance Contracts – Presentation

Dear Sir David and Chairman Seidman:

The American Council of Life Insurers (ACLI)¹ welcomes the opportunity to provide additional comments, as promised in our response to the IASB Insurance Contracts Exposure Draft (ED) and the FASB Discussion Paper: *Preliminary View on Insurance Contracts* (DP) specifically related to the presentation approach. We stated in our response to the ED that the ACLI does not support the proposed summarized margin presentation approach. The insurance business fundamentally involves the collection of premiums and the payment of claims and associated expenses in accordance with the contract provisions with the policyholder. While we agree that the presentation should flow from the measurement of insurance contracts, we believe that the cash flow components of the building blocks, premiums, benefits, and expenses, are as essential to the measurement as the explicit margin component and therefore merit equally prominent presentation on the face of the financial statements. In addition, we believe that the recognition of premiums as deposits, with expenses, claims and benefit payments as withdrawals not only represents a fundamental change to current practice but that it would misrepresent the nature of the business and result in a loss of essential information for users of financial statements. Furthermore, the disclosure of revenue and expense items in the notes should not serve as a substitute to the recognition of revenue and expenses in the financial statements.

Presentation is an essential part of the accounting model for insurance contracts in order to provide users with meaningful information and serve as a faithful representation of the insurance business. The ACLI has invested significant resources addressing presentation issues and concerns over the past two years. In our February 15, 2010 letter to the two Boards, we described at length our views on presentation related to the insurance contracts project. We also provided comments in our letter to the FASB on the Discussion Paper-*Preliminary Views on Financial Statement Presentation* on April 14, 2009, that are equally relevant for insurance contracts. Copies of the two letters accompany this response since the views expressed continue to represent our current position on many of the critical issues.

To help us in our deliberations and development of the views and recommendations for this letter, the following guiding principles were developed:

- The presentation model should rely on a management approach to classification of assets and liabilities and related changes consistent with the way the entity manages its business
- Presentation should flow from the measurement of the insurance contract liabilities and that measurement is based upon the expected cash inflows and outflows

¹ The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S life insurance and annuity industry.

- Cash inflows are a function of the customer consideration outlined in the contract, typically described as the premium or fee, which represent insurance income
- Cash outflows are a function of the insurer's obligation to pay claims and expenses to service the contract and represent insurance expenses
- Disclosures should supplement and compliment the information presented in the financial statements especially when disaggregated information displayed in the financial statements may cause confusion to the users and overly complicate the presentation

Recommendations

Based upon these guiding principles, the ACLI recommends the following with respect to the financial statement presentation for insurance contracts:

- The accounting guidance should be principle-based and the presentation should reflect the way the business is managed
- The accounting guidance should include principles about revenue recognition for insurance since it appears that insurance contracts will be scoped out of the Revenue Recognition project
- A consistent reporting model should apply to all insurance contracts and that model should be based upon the recognition of premiums and fees as revenue with claims and expenses as charges to operations as these metrics are of utmost importance to understanding an entity's business
- Other information should also be disaggregated within the financial statements or in the notes so that sufficient information is provided to users to understand the nature of the business

The remainder of this letter details the rationale for our recommendations accompanied by examples and specific guidance for the Boards consideration as they re-deliberate this topic. The examples provided are based solely on our interpretation of the ED as proposed and should not be considered as an endorsement of the proposals. Please refer to our letter on the ED for comments regarding the questions related to the proposed model.

Management approach

We disagree with the IASB's Basis for Conclusions expressed in paragraph 162 of the ED that the summarized margin approach presents a clear link with the measurement of insurance contracts. In fact it obscures the measurement, which is about the cash inflows and outflows. To say that the margin presentation approach makes it unnecessary to unbundle, likewise, is misleading. Unbundling is about measurement and applying the appropriate measurement attribute, not presentation.

Insurance and banking are separate and distinct businesses. The banking model relies on deposits as a source of funding loans. In all cases, the deposits will be returned to the customer. In essence, the customers loan their money to the bank and receive a rate of return-interest. The insurance model is a contract between the insurer and policyholder, whereby the insurer compensates/indemnifies the policyholder for the insured risk if the triggering event occurs. The consideration paid by the policyholder is generally not refundable.

We believe that a presentation that follows the management approach will improve the usefulness of the financial statements and improve the quality of financial reporting because it allows users to view the statements "through the eyes of management". Company structures vary with some reporting entities having a complex organization while others are more simplified. Consequently no one format will satisfy everyone's needs.

One of the ways to accommodate a management approach is to provide a more principle-based approach to presentation. For example, paragraph 69 of the ED states "An insurer shall present each portfolio of insurance contracts as a single item within insurance contract assets or insurance contract liabilities." We have interpreted the proposed guidance to mean that portfolios with balances representing an asset would be summed such that a single net asset would be reported. Portfolios with balances representing a liability would be summed and reported as a single net liability. We do not support a single net asset and single net liability approach. Because the current fulfillment model requires unlocking of assumptions each

reporting period, portfolios could easily move from an asset to liability and visa versa simply due to changes in assumptions. We believe a more appropriate presentation would be to report a single net amount for all portfolios with a disclosure illustrating the changes in the liability and its components between periods.

Large diversified companies could have many portfolios that when detailed in the financial statements could prove burdensome for users. Greater flexibility or clarity should be provided such that the information could be presented within the financial statements consistent with the way the business is managed with notes to supplement the presentation. Likewise, paragraph 72 of the ED is too prescriptive. Requiring acquisition costs that are not incremental to be presented separately in the statement of comprehensive income is too granular to warrant separate reporting.

Another area that the Boards should explore is the use of OCI (other comprehensive income) to report changes in the value of assets and liabilities measured at fair value or current fulfillment value resulting from changes in interest rates. The changes in value are important, however, the volatility created by the change in value from period to period and reported in operations could overwhelm the statement in a way that will make it difficult for users to understand the operating earnings of the entity.

Revenue recognition

In our June 30, 2009 letter on the Discussion Paper: *Preliminary Views on Revenue Recognition in Contracts with Customers*, we stated "that any accounting standard on revenue may be as much about presentation as it is about measurement. As it relates to insurance contracts, the contract liabilities relate primarily to the expected benefit payments payable to policyholders and beneficiaries. Any presentation of revenue and benefits that doesn't reflect the nature of the contract will be misleading and will not provide useful information to the users of financial statements." We further stated that the terms revenue and earnings are different. Earnings, in our view, typically equates to net income while revenue reflects the inflows resulting from a transaction with a customer.

One of the shortcomings of the ED, in our opinion, is that it fails to provide a principle for the recognition of revenue. Paragraphs 69-78 of the ED describe what to do and not do in a very prescriptive way. Since the current view of the Boards is that insurance contracts will be scoped out of the proposed revenue recognition guidance as described in the Exposure Draft: *Revenue from Contracts with Customers*, we believe that it is essential to have a revenue principle for insurance contracts within the insurance standard.

A starting point for the development of a principle should be U.S. GAAP. ASU 944-605-25-1 states:

"Premiums from *short-duration contracts* (*italics added*) shall be recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. For those few types of contracts for which the period of risk differs significantly from the contract period, premiums shall be recognized as revenue over the period of risk in proportion to the amount of insurance protection provided."

For long-duration contracts ASU 944-605-25-3 states: "Because no single function or service is predominant over the periods of most types of long-duration contracts, premiums shall be recognized as revenue over the premium-paying periods of the contracts when due from policyholders."

These definitions are similar to the definition of premiums contained in the NAIC Accounting Practices & Procedures Manual, which is the statutory accounting basis for U.S. insurers:

Life premiums (SSAP No. 51)

Premiums shall be recognized as income on the gross basis (amount charged to the policyholder) when due from policyholders under the terms of the insurance contract.

P&C premiums (SSAP No. 53)

Written premium is defined as the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the coverage provided by the terms of the insurance contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired.

Earned premium (amount reported in income) is the written premium adjusted for the change in the unearned premium reserve.

With respect to insurance contracts, the ACLI proposes the following revenue principles (in bold):

The transaction price is the amount paid or payable by the customer/policyholder in accordance with the contractual terms of the insurance contract. For some insurance contracts, the consideration may be described as the "premium", while other insurance contracts may describe the consideration as a "fee". Regardless of the label, the amount represents the *customer consideration*.

For most long-duration contracts and short-duration contracts that are measured under the current fulfillment model, the *customer consideration* is the amount due under the terms of the contract to keep the contract in force plus the amount of additional discretionary consideration. The frequency of payment is typically annual but payments may be more frequent such as semi-annual, quarterly or monthly. The following examples illustrate how to apply the guidance:

- For life insurance, long-term care, disability income and other long-duration contracts, the policyholder typically pays the contract amount at the beginning of each policy year for that year. The insurer recognizes the consideration when due with a corresponding adjustment to the measurement of the insurance obligation. Where the policyholder pays more frequently than annual, the insurer will recognize revenue as each payment comes due.
- Where the consideration is a single amount, e.g., single premium life income annuity, or where the contract does not require periodic payments, e.g., flexible premium annuity or universal life, the consideration is recognized as revenue when received.

For insurance contracts measured under the premium allocation approach, typically short-duration contracts, the amount paid by the policyholder shall be recognized as revenue proportionally throughout the period of coverage. Typically, in these contracts, the unearned amount would be refunded to the customer in event the contract is voluntarily terminated. Cancellation of an auto policy by the customer before the expiration of the coverage period is an example.

An entity shall evaluate the terms of the insurance contract and its customary business practice to identify all insurance rights and obligations and shall present information in the financial statements consistent with the nature of the contracts and the way the business is managed.

An entity shall recognize revenue representing the amount of the transaction price, i.e., customer consideration, when due for contracts measured at current fulfillment value and earned for contracts measured under the premium allocation approach.

Consistent reporting model

Based on our review of the responses to Question 13a of the ED, 70% of those answering the question did not support the summarized margin approach. The predominant objection was the loss of volume information within the financial statements. Another important point was the lack of support for two separate reporting models, one for short-duration contracts where the premium allocation approach would recognize premiums in revenue (paragraph 75), and the other for long-duration contracts where premiums are deposits (paragraph 74). By adopting the revenue principles recommended in the preceding section, the result would be that the reporting for all insurance contracts would follow a similar format. The accompanying appendix contains examples of how selected contracts would be reported based upon the

principles, i.e., reporting premiums and fees as revenue with claims and expenses as charges to operations.

While comparability may be compromised initially, we believe that over time there will be a move toward a "best practice" as entities become acclimated to the new format. Comparability and consistency can be achieved by enhancing the presentation with disclosures.

Disclosures

In the ACLI response to the Discussion Paper, *Preliminary Views on Insurance Contracts*, we recommended that the Board develop disclosure requirements related to the liability as a whole, rather than disclosures focused on any particular component of the liability. More useful and relevant disclosures would include information regarding the risks in the total liability, such as those sensitive to changes in interest rates and the average duration of the contracts valued. IFRS 4, *Insurance Contracts*, requires extensive disclosures about insurance contracts including information about the nature and extent of risks in insurance contracts. While we believe the current disclosure requirements of IFRS 4 enable users to understand the risks inherent in insurance contracts, the proposed change in measurement to a current value approach might lead to additional disclosures. For example, the effect of changes in estimates about the cash flows in the liability could be described in the notes if insufficient details are presented in the financial statements.

Users are also interested in knowing details about the sources of earnings. Ultimately, management must identify the material drivers to earnings that reflect the nature of its business providing sufficient details in the statements and notes to achieve the reporting objective.

Dependent on the complexity of the reporting entity, information within the financial statements may need to be aggregated, while other reporting entities may be able to present information in sufficient detail within the financial statements that minimizes the need for additional disclosures. Since the measurement of the insurance contract liability is based upon the building blocks, we believe that the entity should report the components-expected cash inflows, expected outflows separating claims and expenses, and the release of margins either in the financial statements or in the notes. Reconciliation of the components of the insurance net asset/liability along with the traditional segment information will help users understand the entity's performance. In addition, separating insurance and investment activity will improve the understanding of the key drivers of the entity's profits. Examples in the Appendix illustrate how to achieve these objectives.

Summary

We believe that the principles we propose along with a consistent reporting model that presents premiums and fees as revenue and claims and expenses as charges to operations with appropriate disclosures would accomplish the Board's reporting objective and enhance transparency. We would recommend that the Boards consider the presentation formats presented in Examples 4 and 5. We welcome the opportunity to discuss this matter in greater detail at your convenience.

Sincerely,

cc: Jennifer Weiner, FASB staff Andrea Pryde, IASB staff

Appendix

Insurance Contracts Presentation Examples

The purpose of this appendix is to provide examples of presentation which may be useful to the Boards as they continue their deliberations on the ED and DP related to insurance contracts.

These examples do not attempt to take into consideration presentation guidance found in other emerging guidance, including, but not limited to the Presentation of Financial Statement Project, the Financial Instruments Project, or the Presentation of Other Comprehensive Income Project.

Example 1

Example 1 is a presentation example for the Statement of Comprehensive Income prepared by Ernst & Young, LLC in their publication entitled "Presentation and disclosures. Example presentation of the Statement of Comprehensive Income in compliance with the Exposure Draft on Insurance Contracts issued July 2010." (EYG no. AU0721). This example uses a columnar format to present short-duration and long-duration contracts separately.

Example 2

As indicated in our letter above, it is the ACLI's view that cash flow items used in the fulfillment measurement for long-duration insurance contracts including premiums and fees, claims and benefits expenses should also be presented on the face of the financial statements. To accomplish this, Example 2 expands on the E&Y presentation approach in Example 1 by making the following changes:

- including amounts for premiums and fees, claims incurred and expenses incurred in the longduration contracts column. Such amounts are presented on the same rows as those used for shortduration contracts.
- adding a row incremental acquisition costs on long-duration contracts.
- moving the release of risk adjustment and the release of residual margin up to the top section so that there would be a single total line for underwriting margins.
- including a new row labeled "Change in insurance liability from premiums, claims and benefits, incremental acquisition costs and expenses." This row is necessary to remove these cash flow items from having any impact on the underwriting margins subtotal. This row can be thought of in the same way as the "Other changes in insurance liability" row included in the FASB DP paragraph 126 Alternative 2: Written Premium Presentation Approach example.

The remainder of Example 2 includes the same rows as displayed in Example 1.

Both Example 1 and Example 2 reflect the presentation of only items associated with short-duration or long-duration insurance contracts. Most, if not all companies that issue insurance contracts also have non-insurance contract business. Therefore, we believe it is prudent for the Boards to consider how the proposed insurance contract presentation will appear when integrated with the non-insurance items and business and the related presentation thereof. Examples 3 through 5 are intended to provide examples of such integrated views. These examples purposefully do not include any dollar amounts so that the focus can be just on the financial statement presentation.

Example 3

Example 3 is a Statement of Net Income which further expands upon Example 2 to include an "Other" column to present segment amounts that are not related to insurance contracts. Additional rows have also been added as necessary to accommodate such activity. In this example, cells which would have a

balance are highlighted in green. The numbers on the left and right of each the rows on the next four examples are for reference purposes and can be used to direct the reader to the appropriate line.

The "Underwriting margins, net of reinsurance" rows are essentially the same as in Example 2, although some of the row titles have been modified. Rows 8 and 9 have been labeled "Other changes in insurance liabilities" borrowing from the terminology used in the FASB Alternative 2 example from the DP. The amounts in the cells outlined in red would net to zero and thus remove the cash flow items from having any impact on the underwriting margins subtotal. This example highlights that the proposed margin presentation as well as the alternate presentation does not work well with an income statement with separate sections for "Income" and "Expense".

We believe the multi-column presentation format used in the Examples 1 through 3 may prove to be cumbersome to implement in practice when the results of multiple periods are required to be presented.

Example 4

Example 4 is a Statement of Net Income using a single column format and is based on the FASB Written Premium Approach. This example also incorporates additional rows to accommodate typical activities of a multi-line insurance holding company. A discussion of this example presentation is as follows:

- Rows 1-12 Rows 1 through 12 of this example mirror the same rows in Example 3.
- Rows 14 17 These rows have been re-ordered to present insurance contract related items in rows 14 through 17 just below the underwriting margins section.

Row 14 presents the change in additional liabilities for onerous contracts.

Row 15 presents the net of gains and losses at initial recognition. The disaggregation of (i) losses on insurance contacts acquired in a portfolio transfer, (ii) gains on reinsurance contracts bought by cedant, and (iii) losses at initial recognition of an insurance contract would be disclosed in the notes to the financial statements as permitted by the ED.

Row 16 presents experience adjustment and changes in estimates, disaggregated by (i) differences between actual cash flows and previous estimates of those cash flows (i.e. experience adjustments), and (ii) changes in estimates of cash flows and changes in discount rates.

- Row 19 Added for investment contract assessments and fees.
- Rows 21 29 These rows group net investment income, interest on insurance liabilities and interest credited on investment contracts. Note that net investment income would include earnings on assets backing insurance contracts, assets backing investment contracts, and other invested assets.

Rows 23 and 25 present the income from unit-linked assets and the expense from unit-linked liabilities. Although, as suggested in our comment letter to the IASB submitted on November 30th, we believe the presentation guidance in Paragraph 78 be redrafted consistent with FASB guidance as codified from Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts, as follows:

Unit-linked assets should be measured at fair value and reported in the insurance enterprise's financial statements as a summary total, with an equivalent summary total reported for related liabilities. The related investment performance (including interest, dividends, realized gains and losses, and changes in unrealized gains and losses) and the

corresponding amounts credited to the contract holder should be offset within the same statement of operations line item netting to zero.

Note that the change in the value of the unbundled embedded derivative liability on row 31 of the Statement of Financial Position in Example 5 would be included in realized gains and losses.

Row 26 presents interest on insurance contract liabilities and accretion of interest on the carrying amount of the pre-claims liability for short-duration contracts.

Row 27 was added for interest credited on investment contracts that are unbundled.

Row 35 The preference of the ACLI is that non-incremental acquisition costs should not be presented separately and therefore we would propose that such amounts would be combined into the "Other expense" row.

Paragraph 73 of the IASB ED indicates that the changes in estimates of discount rates and the interest on insurance liabilities shall be presented or disclosed in a way that highlights their relationship with the investment return on the assets backing those liabilities. We believe this relationship may best be disclosed in the notes to the financial statements rather than appearing on the face of the financial statements.

Example 5

Example 5 is an example Statement of Financial Position based on a typical multi-line insurance holding company modified to incorporate the presentation requirements of the IASB ED. A discussion of this example is as follows:

- Row 10 The IASB ED uses the terminology "unit-linked contracts". Separate account assets would fall under the classification of assets associated with unit-linked contracts and therefore the title of this row has been changed.
- Rows 15 16 Separate line items for short duration pre-claim liability and claim liability have been identified.

The Statement of Financial Position presentation guidance in paragraphs 69 through 71 of the IASB ED does not specifically address these items. This example shows separate line items for each, although this may or may not be the presentation intended by the IASB ED.

Rows 19 – 20 This example presentation combines all insurance contract portfolios into one net insurance contract liability amount and all reinsurance portfolios into one net reinsurance asset amount. The net reinsurance asset has been presented on the liability side of the balance sheet in this example.

We believe that the guidance on portfolio level disclosure needs to be clarified to eliminate confusion on whether one asset and one liability are to be presented or whether multiple portfolios of assets and liabilities are to be presented. Further, we believe that the Boards should comment on whether the presentation of the net insurance liability and the net reinsurance asset both on the liability side of the balance sheet would be appropriate.

Rows 22 – 23 Separate line items for unbundled investment components and unbundled embedded derivative liabilities have been identified.

Row 30 The IASB ED uses the terminology "unit-linked contracts". Separate account liabilities would fall under the classification of liabilities associated with unit-linked contracts and therefore the title of this row has been changed.

Example 6

Example 6 - 10 year term contract, is based upon the term illustrations presented in other ACLI letters to the Board related to acquisition costs and margins. This example only focuses on the first three years and assumes the same level of sales each year. Since the illustration is based on a new company with no in force business, it simplifies the presentation and level of detail. Note that the net insurance amount is an asset reported as a single amount. The premiums are reported as revenue followed by the release of margins. For purposes of this example we show a single margin as an expedient. Benefits, expenses and the change in liability, when added, will equal the premium, which would be expected by the gross-up of these amounts in the statement. There is a clear separation between insurance and investment activity with the investment section containing a line reporting the unwinding of the interest within the measurement of the insurance obligation. We believe this format showing premiums, benefits, expenses and separating insurance and investment activity will enhance the understanding of the financial statements.

Statement of Comprehensive Income proposed by ED

	prenensive meome proposed by ED				
			Short- duration	Long- duration	
ED reference		Footnote	contracts*	contracts	Total
75(a)i	Premium revenue		2,335.3		2,335.3
77, 46	Premium ceded to reinsurers		(196.2)		(196.2)
75(a)ii	Claims incurred		(1,497.4)		(1,497.4)
77	Claims ceded to reinsurers		75.9		75.9
75(a)iii	Expenses incurred		(341.5)		(341.5)
75(a)iv	Amortisation incremental acquisition costs		(330.9)		(330.9)
75()	Underwriting margin short-duration contracts, net of		45.2		45.0
75(a)	reinsurance**		45.3	-	45.2
72(a)i	Release of risk adjustment claims liabilities, gross		144.4		144.4
	Release of risk adjustment claims liabilities,				
77	reinsurance		(21.7)		(21.7)
	Total release of risk adjustment claims liabilities		122.8	-	122.7
72(a)i	Release of risk adjustment**			169.5	169.5
72(a)ii	Release of residual margin**			82.8	82.8
77(a)	Underwriting margin long-duration contracts			252.3	252.3
72(b)iii	New business losses (onerous contracts)			(56.6)	(56.6)
72(c)	Non-incremental acquisition costs		(113.4)	(82.8)	(196.2)
72(d)	Experience adjustments and change in discount rates	2	(9.8)	962.5	952.7
72(e)	Interest accretion		(60.4)	(1,239.4)	(1,299.8)
78(a)	Movements in unit-linked liabilities		(0011)	(902.6)	(902.6)
	Total other expenses		(183.6)	(1,318.9)	(1502.5))
IFRS 7	Investment income	1	280.1	947.6	1,227.7
II KS /	Investment income attributable to unit-linked	1	200.1	747.0	1,227.7
78(b)	policyholders			902.6	902.6
	Total investment income		280.1	1,850.2	2,130.3
	Profit before tax		264.6	783.6	1,048.2
	Income tax expense		67.5	199.8	267.3
	Profit for the year		197.1	583.8	780.9

 $[\]ensuremath{^{*}}$ All general insurance contracts are assumed to meet the definition of short-duration contracts

^{**} The ED allows the detailed breakdown of the underwriting margin for short-duration contract to be presented either on the face of the statement of comprehensive income or in the notes to the financial statements

Footnote 1 In	nvestment Income		
IFRS Referer	nce	Short-duration	Long-duration
		contracts	contracts
IFRS 7	Dividend and interest income	157.2	1,657.5
IFRS 7	Investment gains a losses	122.9	(709.8)
	Investment income	280.1	947.7

Footnote 2 Ex	xperience adjustments and changes in discount rates		
		Short-duration	Long-duration
ED Reference		contracts	contracts
	Experience adjustments	(19.1)	11.3
	Change in discount rate	9.3	951.2
72(d)ii	Experience adjustments and change in discount rates	(9.8)	962.5

Statement of Comprehensive Income recommended approach

				Short-	Long-	
ED rof	ference		Footnote	duration contracts*	duration contracts	Total
75(a)i	87(c)	Premiums and fees	roomote	2,335.3	***6,392.4	8,727.7
77, 46	87(0)	Premium ceded to reinsurers		(196.2)	0,372.4	(196.2)
75(a)ii	87(d)i	Claims incurred		(1,497.4)	***(4,825.8)	(6,323.2)
77	07(4)1	Claims ceded to reinsurers		75.9	(1,023.0)	75.9
75(a)iii	87(d)ii	Expenses incurred		(341.5)	***(768.3)	(1,109.8)
()	87(d)iii	Incremental acquisition costs		(6 1210)	***(236.2)	(236.2)
75(a)iv		Amortization incremental acquisition costs		(330.9)	(,	(330.9)
. ,		Change in insurance liability from premiums, claims and		· · ·		, ,
		benefits, incremental acquisition costs and expenses			***(562.1)	(562.1)
72(a)i	77I	Release of risk adjustment, gross**		144.4	169.5	313.9
77		Release of risk adjustment, reinsurance		(21.7)		(21.7)
72(a)ii	77i	Release of residual margin**	_		82.8	82.8
75(a)	72(a)	Underwriting margins, net of reinsurance**		167.9	252.3	420.2
72(b)iii		New business losses (onerous contracts)			(56.6)	(56.6)
72(c)		Non-incremental acquisition costs		(113.4)	(82.8)	(196.2)
72(d)		Experience adjustments and change in discount rates	2	(9.8)	962.5	952.7
72(e)		Interest accretion		(60.4)	(1,239.4)	(1,299.8)
78(a)		Movements in unit-linked liabilities	-		(902.6)	(902.6)
		Total other expenses		(183.6)	(1,318.9)	(1,502.5)
				•004	0.4=	
IFRS 7		Investment income	1	280.1	947.6	1,227.7
78(b)		Investment income attributable to unit-linked policyholders	-	200.1	902.6	902.6
		Net investment income	_	280.1	1,850.2	2,130.3
		D C.1 C		264.6	702 (1049.2
		Profit before tax		264.6	783.6	1048.2
		Income tax expense	-	67.5 197.1	199.8	267.3
		Profit for the year		197.1	583.8	780.9

^{*} All general insurance contracts are assumed to meet the definition of short-duration contracts

***These amounts net to zero

Footnote 1 In	nvestment Income		
IFRS Referen	ace	Short-duration	Long-duration
		contracts	contracts
IFRS 7	Dividend and interest income	157.2	1,657.5
IFRS 7	Investment gains a losses	122.9	(709.8)
	Investment income	280.1	947.7

Footnote 2 Ex	xperience adjustments and changes in discount rates		
		Short-duration	Long-duration
ED Reference		contracts	contracts
	Experience adjustments	(19.1)	11.3
	Change in discount rate	9.3	951.2
72(d)ii	Experience adjustments and change in discount rates	(9.8)	962.5

^{**} The ED allows the detailed breakdown of the underwriting margin for short-duration contract to be presented either on the face of the statement of comprehensive income or in the notes to the financial statements

Example 3Statement of Net Income with Additional Business Activities

	Statement of Net Inc	ome with Additional Business Activities				
			Short-	Long-		
			Duration	Duration		
	ED / DP Reference		contracts	contracts	Other	Total
1	ED 75(a)i, 87(c)	Insurance revenue - Premium and fees	\$ -	\$ -		\$
2	ED 77, 46	Insurance revenue ceded to reinsurers	Ψ _	Ψ -		_
3	ED 75(a)ii, 87(d)i	Claims and benefits expenses incurred	_	_		_
4	ED 77	Claims ceded to reinsurers	_	_		_
5	ED 75(a)iii, 87(d)ii	Expenses incurred on insurance contracts	_	_		_
6	ED 87(d)iii	Incremental acquisition costs		_		_
7	ED 75(a)iv	Amortization of incremental acquisition costs	_			-
8	DP 126	Other changes in insurance liabilities, gross		-		-
9	DP 126	Other changes in insurance liabilities ceded to reinsurers		_		_
10	ED 72(a)	Release of composite margin, gross	_	_		_
11	ED 77	Release of composite margin, reinsurance	_			_
12	ED 72(a), 75(a)	Underwriting margins, net of reinsurance	_		_	
13	2D 72(u), 70(u)	ender wrong margins, net of remodrance				
14	ED 8	Investment contract expense assessments and fees			-	_
15	22 0	and towns to the two conferences and the two				
16		Net investment income:**				
17		Net investment income	_	-	-	_
18	ED 78(b)	Investment income attributable to unit-linked policyholders		-		-
19	. ,	Total net investment income	_		-	-
20						
21		Realized gain (loss)	-	-	-	-
22						
23		Other revenues and fees	-	-	-	-
24						
		Change in additional liabilities for onerous short-duration				
25	ED 75(b)	contracts	-			-
26						
27	ED 72(b)	Net gains and losses at initial recognition	-	-		-
28	ED 72(d)	Experience adjustments and changes in estimates		-		
29	ED 78(a)	Expense from unit-linked liabilities		-		-
30	ED 72(e)	Interest on insurance contract liabilities**	-	-		-
31 32	ED 8(a) ED 72(c)	Interest credited on investment contracts Non-incremental acquisition costs			-	-
33	ED 72(C)	Other expenses	-	-	-	-
34		Total Other expenses	_	_	_	_
35		Income (loss) from continuing operations before taxes		_	_	_
36		Federal income tax expense (benefit)		_	_	_
37		Income (Loss) from Continuing Operations				
38		Income (loss) from discontinued operations, net of				
39		federal income tax expense (benefit)				_
			\$ -	\$ -	<u> </u>	•
40		Net Income (Loss)	\$ -	2 -	3 -	\$ -

42	** ¶73 indicates that the changes in estimates of discount rates an presented or disclosed in a way that highlights their relationship we liabilities. Rather than presenting this relationship on the face of	vith the investm	ent return on	abilities shall be the assets backing those	42
43	format would disclose that relationship in a footnote as follows:				43
44	Investment income, interest accretion of insurance liabilities a	nd changes in	discount rate	es	44
		Short- Duration	Long- Duration		
45		contracts	contracts	4	45
46					46
47	Investment Income (from row 17)	-	-	4	47
48				4	48
49	Interest on insurance contract liabilities (from row 30) Change in discount rates (embedded in the experience	-	-	2	49
50	adjustments on row 28)	-	-	<u> </u>	50
51		-	-		51
52	Net return on investments	-	-	:	52

Statement of Net Income Statement - ACLI Proposed Expanded FASB Written Premium Approach

ED / DP Reference 1 ED 75(a)i ,87(c) Insurance premiums and fees, gross 1 2 ED 77,46 Insurance premiums and fees ceded to reinsurers 2 3 Claims and benefits expenses incurred, gross ED 75(a)ii ,87(c)i 3 4 ED 77 Claims and benefits expenses ceded to reinsurers 4 5 ED 75(a)iii, 87(d)iii Expenses incurred on insurance contracts 5 ED 87(d)ii Incremental acquisition costs 6 6 7 ED 75(a)iv Amortization of incremental acquisition costs included in the pre-claim liability 7 8 DP 126 Other changes in insurance liabilities, gross 8 9 DP 126 Other changes in insurance liabilities ceded to reinsurers 9 10 ED 72(a) Release of composite margin on long-duration contracts, gross 10 11 ED 77 Release of composite margin on long-duration contracts ceded to reinsurers 11 12 ED 72(a), 75(a) Underwriting margin, net of reinsurance 12 13 13 14 ED 75(b) Change in additional liabilities for onerous short-duration contracts 14 15 ED 72(b) Net gains and losses at initial recognition 15 ED 72(d) Experience adjustments and changes in estimates 16 16 Other insurance related expenses 17 17 18 18 19 19 Investment contract assessments and fees 20 20 Net investment returns: 21 21 ED 73 22 22 Net investment income 23 ED 78(b) Income from unit-linked assets 23 24 24 Total net investment income 25 ED 78(a) Expense from unit-linked liabilities 25 26 ED 72(e), 59 Interest on insurance contract liabilities 26 27 ED 8(a) Interest credited on investment contracts 27 Total net investment expenses 28 28 29 **Total net investment returns** 29 30 30 31 Realized gain (loss) 31 32 32 33 33 Other revenues and fees 34 34 35 ED 72(c) Other expenses (including non-incremental acquisition costs) 35 36 Income (loss) from continuing operations before taxes 36 37 Federal income tax expense (benefit) 37 38 38 **Income (Loss) from Continuing Operations** 39 Income (loss) from discontinued operations, net of 39 40 40 federal income tax expense (benefit) 41 Net Income (Loss) 41

Example 5

Statement of Financial Position

	Statement of Fin	ancial Position		
	ED / DP Reference	ACLI Proposed Presentation		
1		ASSETS		1
2		Investments	\$ -	2
3		Cash and invested cash	-	3
4		Premiums and fees receivable	-	4
5		Accrued investment income	-	5
6		Reinsurance recoverables	-	6
7		Reinsurance related derivative assets	-	7
8		Goodwill	-	8
9		Other assets	-	9
10	ED 71(a)	Assets associated with unit-linked contracts		10
11		Total Assets	<u> </u>	11
12				12
13		LIABILITIES AND STOCKHOLDERS' EQUITY		13
14		Liabilities		14
15	ED 55(a)	Pre-claim liability for short-duration contracts	\$ -	15
16	ED 55(b)	Claim liability for short-duration contracts	-	16
17	ED 60	Additional liability for onerous short-duration contracts	-	17
18		Other Policy & Contract Claims Due	-	18
19	ED 69	Net insurance contract liabilities	-	19
20	ED 70	Net reinsurance contract assets	(-)	20
21	ED 8(a)	Other contract holder funds	-	21
22 23	ED 8(a) ED 8(b)	Investment contract liabilities Unbundled embedded derivative liabilities	-	22 23
	LD 0(0)		-	
24		Short-term debt	-	24
25		Long-term debt	-	25
26 27		Reinsurance related derivative liabilities Funds withheld reinsurance liabilities	-	26 27
28		Payables for collateral under securities loaned and derivatives	-	28
29		Other liabilities	_	29
30	ED 71(b)	Liabilities associated with unit-linked contracts	-	30
31		Total liabilities	_	31
32			-	32
33		Stockholders' Equity		33
34		Preferred stock	-	34
35		Common stock	-	35
36		Retained earnings	-	36
37		Accumulated other comprehensive income (loss)		37
38		Total stockholders' equity	_	38
39		Total Liabilities and Stockholders' Equity	\$ -	39
5)		Total Elabinics and Stockholders Equity	Ψ	37

10 Year Term Contract

	ED / DP Reference		Year 0	Year 1	Year 2	Year 3	
1		Assets:					1
2		Invested assets	430.0	191.0	76.3	62.6	2
3	ED 69	Net insurance assets		<u>481.6</u>	<u>771.7</u>	909.0	3
4							4
5		Total Assets		672.6	847.9	971.6	5
6							6
7		Liabilities:					7
8		Deferred Tax Liability		222.1	361.8	436.4	8
9							9
10		Total Equity	430.0	450.5	486.1	535.2	10
11		Total Liabilities & Equity		672.6	847.9	971.6	11
12							12
13							13
14			Year 0	Year 1	Year 2	Year 3	14
15							1
	ED 55(): 05()						5
16	ED 75(a)i ,87(c)	ъ :		415.0	702.5	1 125 7	1
17	ED 72(a)	Premiums		415.0	792.5	1,135.7	6
17 18	ED 72(a)	Release of margins		7.9	15.7	23.2	17
19		D					18 19
20	ED 75(a)ii	Benefits & Expenses: Benefits		96.0	218.2	357.1	20
21	ED 75(a)ii			773.3	218.2 819.5	357.1 861.5	21
22	LD 73(u)II	Expenses Change in insurance obligations		(454.2)	(245.2)	(82.9)	22
23		Total benefits & expense		415.1	792.5	1,135.7	23
24		Net insurance income		7.9	192.3	23.2	24
25		Net insurance income		1.9	13.7	23.2	25
26		Net Investment income		4.3	9.8	21.0	26
27		Interest on insurance		19.4	<u> 29.2</u>	31.3	27
28		Total investment income		23.7	39.0	52.3	28
29		Total investment meome		23.1	37.0	32.3	29
30		Pre-tax Net income		31.6	54.7	75.5	30
31		Federal Income Taxes		11.1	19.1	26.4	31
32		Post-Tax Net Income		20.5	35.5	49.1	32
22		1 OSC 1 WA I TOU INCOME		20.5	33.3	77.1	J _

10 Year Term Contract

		Premiums	Benefits	Expenses	Margins	Net
33	Reconciliation between years					
34	Year 1:					
35	Beginning of the period	-	-	-	-	-
36						
37	New business	2,484.3	1,384.3	1,026.3	73.7	0.0
38						
39	Interest	93.1	62.3	11.4	-	19.4
40						
41	Amount released into P&L	415.0	96.0	773.3	7.9	462.2
42						
43	Change due to change in assumptions					
44						
45	End of period	2,162.4	1,350.6	264.4	65.8	481.6
46						
47	Year 2:					
48						
49	Beginning of the period	2,162.4	1,350.6	264.4	65.8	481.6
50						
51	New business	2,484.3	1,384.3	1,026.4	73.7	0.0
52						
53	Interest	173.4	123.1	21.2	-	29.2
54						
55	Amount released into P&L	792.5	218.2	819.5	15.7	260.9
56						
57	Change due to change in assumptions				<u>-</u>	<u>-</u>
58						
59	End of period	4,027.6	2,639.7	492.5	123.8	771.7
60						
61	Year 3:					
62						
63	Beginning of the period	4,027.6	2,639.7	492.5	123.8	771.7
64						
65	New business	2,484.3	1,384.3	1,026.4	73.7	(0.1)
66						
67	Interest	241.9	181.1	29.6	-	31.3
68						
69	Amount released into P&L	1,135.7	357.1	861.5	23.2	106.1
70						
71	Change due to change in assumptions	_	_	_	_	_
72	change due to change in assumptions					
73	End of period	5,618.1	3,847.9	687.0	174.3	909.0
13	Life of period	3,010.1	3,047.3	007.0	1/4.5	202.0