ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION

April 19, 2011

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

Dear Sir

Re: IAA comments on IASB Financial Instrument Impairment – Supplemental Document

In response to the request for comments on the IASB's Supplemental Document, I am pleased to transmit, on behalf of the International Actuarial Association (IAA), our comments and recommendations.

These comments have been prepared by the Insurance Accounting Committee of the IAA. If, upon reading these comments, you identify any points that you would wish to pursue, please do not hesitate to contact the chairperson of the Insurance Accounting Committee, care of the IAA Secretariat. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Jean-Louis Massé
Secretary General

Attachment: IAA comments

Secrétariat: 601–150 Metcalfe, Ottawa, ON Canada K2P 1P1 ☎ 1-613-236-0886 1-613-236-1386
secretariat@actuaries.org / secretariat@actuaires.org — www.actuaries.org / www.actuaires.org

A Commentary on the
SUPPLEMENTAL DOCUMENT: IASB FINANCIAL INSTRUMENT IMPAIRMENT
Released by the International Accounting Standards Board: January 2011

International Actuarial Association and its Due Process

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-three Full Member actuarial associations, listed in an Appendix to this statement, represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within or likely to have an impact on the areas of expertise of actuaries.

The IAA is pleased to be given the opportunity to provide input to the IASB on this Supplemental Document. These comments have been prepared by its Insurance Accounting Committee, the members of which are listed in an Appendix to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA's official web site.

Comments

We thank the Board for continuing to seek input from its stakeholders regarding this important financial reporting issue. We believe that the principle of measurement underlying this document is very important, not only for a standard dealing with financial instruments, but for other standards as well.

We believe, as expressed in other comment letters that we have submitted, that convergence of the IASB and the FASB approaches to this issue, as to other issues, is very important.

We also believe that the focus of this standard should be on the underlying principle rather than the specific method described. We support and promote an expected value approach, rather than an incurred loss model. This is consistent with other measurement approaches applied to such losses, such as that included in the current proposal to revise IFRS 4. Although we recognize that separate estimates of good book and bad book categories of losses may produce a reasonable overall estimate of the expected value of losses of an entire portfolio of loans, we note that insurers do not categorize their loans in such manner and do not believe that this should be required; therefore, we prefer that the principle of expected losses for an appropriately defined complete portfolio of loans should be the focus of any such financial reporting standard.

Based on conversations with other financial institutions, although it may be appropriate to follow such an approach and may be appropriate for many application purposes, we do not believe that such a specific methodology should be the only one allowed for this and similar expected losses. For example, the methods used to derive expected losses used that are employed as a building block for claims liabilities for insurance contracts and that we expect to be employed in the upcoming revision to IAS 37 may be equally applicable to such a portfolio of loans. We cannot figure out how a good claim/bad claim methodology could be applied to insurance claim liabilities.

We believe as well that the expected time horizon for consideration of expected losses should be the entire life of the portfolio of loans, consistent with initial measurement, and any deviations from such an approach should be subject to appropriate disclosure requirements.

Question 1
Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

IAA Comment
We believe the underlying principle for an expected loss model should be that the expected losses for a **portfolio** of loans should serve as the basis for a liability for such a portfolio. Such a model is inherently superior to an incurred loss model, since it is a current measurement approach that should be more reflective of the expected value of the cash flows at the report date. Another example is the determination of the expected value of a portfolio of insurance claims or IAS 37 liabilities, both of which should be consistent with a current measurement of applicable expected cash flows.

Question 2
Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

IAA Comment
We believe that the principle should focus on the expected value of the expected cash flows for the entire portfolio of expected loans. If it satisfies this principle and represents a practical method to determine a liability, then it should be acceptable. We also believe that it is important to have a single underlying principle to measure expected cash flows. We would not, however, suggest that the good book/bad book method is not an acceptable approach to measure assets such as the expected counter-party losses associated with a ceded reinsurance asset.

Question 3
Do you agree that for financial assets in the 'good book' it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?

IAA Comment
As mentioned above, although such a segmented approach may be developed as a means to help produce an overall expected liability (or contra-asset), from insurers' perspectives it is more important to stress the overall derivation of expected loan losses rather than the specific technique that might be applicable in deriving such an estimate.

Question 4
Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

IAA Comment
We have no comment on this question.

Question 5
Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

IAA Comment
As mentioned above, we believe that it is more important for general purpose financial reporting to derive an estimate of a portfolio loans by cohort. We would emphasize the principle and, if thought appropriate for some financial institutions, would describe what might be an appropriate approach to develop an expected value of such cash flows.

Question 6
Is the requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

IAA Comment
We have no comment on this question.

Question 7
Is the requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

IAA Comment
We have no comment regarding this question.

Question 8
Do you agree with the proposed requirement to differentiate between the two groups (i.e. 'good book' and 'bad book') for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

IAA Comment
As mentioned above, insurers do not require such a segmented approach, although we agree that it may also have some value to other industries. We believe that it is more important to emphasize the underlying principle and leave it to the entity to determine what is the best approach to derive the expected value of cash flows for this purpose.

Question 9
The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the 'good book'? Why or why not?

(b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the 'good book' only in circumstances in which there is evidence of an early loss pattern?

(c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?

(d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?

(e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.

(f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a 'ceiling' should be established for determining the amount of credit impairment to be recognised under the 'floor' requirement (for example, no more than three years after an entity's reporting date)? If so, please provide data and/or reasons to support your response.

IAA Comment

In principle, we do not believe that the derivation of a minimum allowance amount (floor) is appropriate, since it may not be consistent with the derivation of the expected cash flow of the entity. We believe that, if there is evidence of an early loss pattern in a portfolio of loans, then that pattern, given an appropriate level of expected statistical credibility, should be reflected in the estimates of the expected cash flows of the portfolio.

We believe that the expected value of expected cash flows for a portfolio of loans should reflect the expected future economic conditions over the duration of the loan; certainly, that would reflect changes and expected changes in economic conditions. This, like other assumptions regarding the expected value of cash flows, should reflect the current expectations of cash flows, with corresponding disclosure of the basis of these expectations. For a cohort of a portfolio of loans at its inception, the time over which it is considered should be consistent with the expected value of applicable cash flows. Thus, we do not understand the conceptual basis for a shorter period to represent either a floor or ceiling for the expected credit loan impairment.

Question 10

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

IAA Comment

We have no comment on the calculation of the floor as we have commented that we do not believe that such a floor is appropriate, and that the expected value of a portfolio of loans should represent the underlying principle for loan loss impairments.

Question 11

The boards are seeking comment with respect to the flexibility related to using discount amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

IAA Comment
We believe that, subject to materiality considerations, that discounted expected cash flows would be appropriate. Nevertheless, we believe that an entity's accounting policy should specific the method applied by type of portfolio, and should be documented accordingly. Usually we would expect that this method would be consistent by entity. Nevertheless, although the overarching accounting principle would usually be consistent, we could see that different industry approaches may suitably be inconsistent if this inconsistency is based on differences in type of portfolio, available data and different industry practices.

Question 12
Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of the IASB approach (i.e., to recognise expected credit losses over the life of the assets)? Why or why not?

IAA Comment
(See comment to Question 13.)

Question 13
Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (i.e., to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

IAA Comment
First, we prefer a converged approach by the IASB and the FASB. We recommend the recognition of currently expected credit losses over the lifetime of the portfolio of loans.

Question 14Z
Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?

IAA Comment
Although we believe that it is appropriate conceptually for the effective interest rate and the expected losses for a portfolio to be internally consistent, we have no comments regarding the relative importance of operationality of such an approach.

Question 15Z
Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?

IAA Comment
We believe that an estimate of fair value through profit or loss should be based upon the expected cash flows for a portfolio of loans. This should be consistent with the expected value of the portfolio.

Question 16Z
Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

IAA Comment
As indicated above, we believe that a single set of principles and requirements should be applied. However, we recognize that some differences may arise depending upon the application. For example, we do not believe a good book/bad book approach to segmenting expected cash flows would be appropriate for insurance contracts or a portfolio of loan commitments and financial contracts.

Question 17Z
Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

IAA Comment
We have no comment on this question.

Question 18Z
(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?

(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

IAA Comment
We have no comment on this question.

Question 19Z
Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?

IAA Comment
We do not believe that age of the financial asset should change in such a transfer, since it should be the expected lifetime of the (portfolio of loans) in any event.

Other matters

IAA Comment
We have no further comments.

Appendix A

Members of the IAA Committee on Insurance Accounting

Sam Gutterman	Chairperson
David Congram	Co-Vice-Chairperson
Francis Ruygt	Co-Vice-Chairperson
Gunn Albertsen	Den Norske Aktuarforening
Victor Bagnati	Instituto Brasileiro de Atuária (IBA)
Daniel N. Barron	Israel Association of Actuaries
Guy Castagnoli	Association Suisse des Actuaires
Antonella Chiricosta	Istituto Italiano degli Attuari
Alexander Dollhopf	Svenska Aktuarieföreningen
David Finnis	Institute of Actuaries of Australia
Mark J Freedman	Society of Actuaries
Kavassery S. Gopalakrishnan	Institute of Actuaries of India
Rokas Gylys	Lietuvos aktuariju draugija
Jozef Hancár	Slovenska Spolocnost Aktuarov
Armand Maurice Ibo	Institut des Actuaires de Côte d'Ivoire
Dragica Jankovic	Udru enje Aktuara Srbije
Burton D Jay	Conference of Consulting Actuaries
Ad Kok	Het Actuarieel Genootschap
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Kurt Lambrechts	Association Royale des Actuaires Belges
Yin Lawn	Actuarial Institute of Chinese Taipei
Kristine Lomanovska	Latvijas Aktuaru Asociacija
Mike Lombardi	Canadian Institute of Actuaries
Ana Maria Martins Pereira	Instituto dos Actuários Portugueses
Brian Morrissey	Society of Actuaries in Ireland
Yoshio Nakamura	Institute of Actuaries of Japan
Marc F Oberholtzer	Casualty Actuarial Society
Manuel Peraita Huerta	Instituto de Actuarios Españoles
Andreja Radic	Hrvatsko Aktuarsko Drustvo
Nithiarani Rajasingham	Singapore Actuarial Society
Ravi Clifton Rambarran	Caribbean Actuarial Association
Thomas Ringsted	Den Danske Aktuarforening
Jaanus Sibul	Eesti Aktuaaride Liit
Henry Siegel	American Academy of Actuaries
Dieter Silbernagel	Deutsche Aktuarvereinigung e.V. (DAV)
Mateja Slapar	Slovensko Aktuarsko Drustvo
Pentti Soininen	Suomen Aktuaariyhdistys
Bjarni Thórdarson	Félag Islenskra Tryggingastærðfræðinga
Arseny Timakov	Russian Guild of Actuaries
Charles Vincensini	Institut des Actuaires
Peter Withey	Actuarial Society of South Africa
Derek Wright	Institute of Actuaries
Jana Zelinkova	Ceská Spolecnost Aktuárù
Jesús Zúñiga	Colegio Nacional de Actuarios A.C.

Appendix B

Full Member Associations of the IAA
Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuaires en Belgique (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
Institut des Actuaires de Côte d'Ivoire (Côte D`Ivoire)
Hrvatsko Aktuarsko Drustvo (Croatia)
Cyprus Association of Actuaries (Cyprus)
Ceská Spolecnost Aktuárù (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariyhdistys (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e.V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociacija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Lietuvos Aktuariju Draugija (Lithuania)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Association Marocaine des Actuaires (Morocco)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)

Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Russian Guild of Actuaries (Russia)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d'Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Society of Actuaries of Thailand (Thailand)
Institute and Faculty of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals & Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)