October 25, 2013

Re: Proposed Accounting Standards Update - Insurance Contracts (Topic 834)

Dear Sir/Madam,

As one of the leading global reinsurers, The Swiss Re Group ("Swiss Re") supports the Financial Accounting Standards Board (the "FASB" or the "Board") in developing high-quality accounting standards, as well as the FASB's and the International Accounting Standard Board's ("IASB") joint efforts to develop consistent or converged standards with the aim of achieving financial reporting under a single set of high quality globally accepted accounting standards. Swiss Re's consolidated financial statements are prepared in accordance with the accounting principles generally accepted in the United States of America ("US GAAP"). We have reviewed the Exposure Draft, Proposed Accounting Standards Update - Insurance Contracts (the "Exposure Draft," or "ED") and welcome the opportunity to share our feedback with you.

We acknowledge the FASB's objective to increase the decision usefulness of information about insurance contract liabilities, including the nature, amount timing and uncertainty of cash flows related to those liabilities, and the resulting effect on the statement of comprehensive income, and to provide comparability between entities issuing insurance contracts.

We agree with the objectives of revising current insurance accounting and the principles that form the basis for the guidance issued in the ED. However, there are areas where the proposed guidance leads to misleading reporting of performance, is overly complex or the cost of complying with the requirements does not justify benefits in terms of higher decision usefulness. Our main areas of concern are listed below. Please revert to our more detailed responses to the Board's questions for additional information.
Revenue presentation and treatment of estimated returnable amounts

After considering various other approaches, both the FASB and the IASB are asking preparers to present insurance contract revenue under a "premiums earned" approach whereby revenue is determined by the release of the margin and the expected fulfillment cash outflows allocated to a specific reporting period. The approach does not provide period-specific, actual information on sales activity and, due to the complexity of the way earnings are estimated and allocated, it does not result in an appropriate measure for communicating volume information to investors. We prefer the summarized margin approach proposed by the IASB in the 2010 Exposure Draft on Insurance Contracts.

We also do not agree with the requirement to exclude estimated returnable amounts from insurance contract revenue. There is no basis in the unbundling guidance for treating them as deposits, and these cash flows are an integral part of a contract that transfers significant insurance risk. Furthermore, the impact on presentation of the statement of comprehensive income can be misleading. For instance, for a P&C contract with a profit commission, if we exclude estimated returnable amounts from all line items in net income, the statement of comprehensive income will cease to adequately present exposure to claims incurred in a specific period and what premium was earned to cover that exposure.

Premium allocation approach

Our view is aligned with the IASB with regards to use of the two measurement models: the premium allocation approach ("PAA") should be designed to represent a simplification of the building block approach ("BBA"). Use of the premium allocation approach should be considered optional to accommodate the diversity in how different insurance entities steer their business.

Fair value option

We welcome the Board's decision to introduce a measurement model in which changes in current discount rates are recognised in other comprehensive income ("OCI"). Forthcoming guidance on the recognition and measurement of financial assets is likely to exclude certain types of investments from having changes in fair value recognised in OCI. To reduce the scope for accounting mismatches that have no basis in economic exposures, insurance entities should therefore be able to designate insurance contracts as at fair value with changes in fair value recognised in net income ("fair value option") to ensure that insurance contract performance can be presented in financial statements in line with how an insurance entity conducts its asset - liability management.

Unlocking the margin

To ensure consistent profit recognition over time and to avoid counterintuitive results when expectations of contract profitability change as the contract matures, we recommend that the margin should be unlocked for changes in expected cash flows.

Convergence

As a group with a corporate center in Switzerland but with a global presence, we urge the Board to eliminate remaining differences to the IASB proposal to ensure that insurance entities report under one converged standard globally. The scope and impact of existing differences is
extensive enough to reduce comparability significantly and increase implementation costs for
global enterprises to an unjustifiable extent.

Thank you for the opportunity to present our views. We hope you find our comments
informative and useful. If you have any questions regarding the content of this letter, please do
not hesitate to contact me.

Yours sincerely,

Martin Mueller

Chief Accounting Officer

Swiss Re Ltd.
Appendix – Our responses to questions in the Exposure Draft

Scope

1. Do you agree with the scope and scope exceptions of this proposed guidance, including its applicability to contracts written by noninsurance entities?

   We generally agree with the scope and scope exceptions in the ED.

Recognition

2. Do you agree with the requirements included in this proposed Update for when noninsurance components of an insurance contract, including embedded derivatives, distinct investment components, and distinct performance obligations to provide goods or services, would be separately accounted for under other applicable Topics? If not, why not?

   We generally agree with the definition of distinct investment components and the requirement to unbundle these components. However, the requirement to unbundle performance obligations to provide goods and services provided in connection with insurance contracts is unduly onerous. The cost of separating and pricing certain ancillary services such as claims handling from insurance coverage seems unduly high compared to financial impacts, and therefore has limited decision usefulness.

   In our view, the unbundling guidance should specifically identify which features are not considered part of an insurance contract, and the result should be conclusive. No further disaggregation of insurance contracts into additional components should be required for measurement or presentation as we do not think this provides decision-useful information. See our response to question 32 for further discussion.

Initial and Subsequent Measurement

3. (Question for users): Will the proposed measurement model produce relevant information that will help users of an entity's financial statements make economic decisions? If not, what changes to do you recommend and why?

   We have no comment on this topic.

4. (Question for users): Which aspects of the measurement model most significantly improve the information that will be used in making economic decisions and why?

   We have no comment on this topic.
Measurement Approaches

5. Do you agree that entities should apply different approaches to contracts with the different characteristics, described as the building block approach and the premium allocation approach? If not, which model do you think should apply and do you think there should be any changes made to that model?

In our view, one measurement model as represented by the building block approach should be applied to all insurance contracts. This measurement model should include an explicit risk adjustment and a separate margin that represents the expected profit on the contracts. For short-term contracts, we believe that a simplified measurement model can be applied as this will not lead to materially different results from applying the building block approach. Use of this simplification should be optional because, depending on how contracts are managed and how results are communicated to investors, some entities will prefer to use the building block approach across their whole book of business. The guidance on measurement models in the IASB’s Exposure Draft on Insurance Contracts is in line with our views on whether one or more than one measurement model should be applied.

6. Do you agree that entities should be required to apply the premium allocation approach if the coverage period of the insurance contract, considering the contract boundary guidance, is one year or less? If not, what would you recommend and why?

No, there should not be a requirement to apply the premium allocation approach under any circumstance. As mentioned in our response to question 5, use of the premium allocation approach with an explicit risk adjustment is a simplification of the building block approach and therefore use of the premium allocation approach should be optional.

7. Do you agree that entities should be required to apply the premium allocation approach if, at contract inception, it is unlikely that during the period before a claim is incurred there will be significant variability in the expected value of the net cash flows required to fulfill the contract? If not, what do you recommend and why?

No, we do not believe entities should be required to apply the premium allocation approach for the reasons mentioned in question 5 above. We also think that the Board should provide more specific guidance on "significant variability in the expected value of the net cash flows" as the current wording allows for too wide a range of possible outcomes.
Portfolio and Contract Boundary

8. Do you agree with the definition of a portfolio of insurance contracts as included in this proposed Update? If not, what do you recommend and why?

Based on the definition provided in the ED, we are concerned that we may have to maintain a very large number of portfolios to comply with the FASB's proposed guidance. The number of portfolios required would not reflect the level at which we manage our business. For instance, we do not understand how the notion of similar pricing relative to the risk assumed can be converted into an operationally viable criterion for aggregating contracts. Reinsurance treaties are priced separately and distinctly on a contract level, although underlying assumptions may be specified at higher aggregation levels. These contracts are then grouped into distinct pools of contracts for various management purposes, including reserving, on the basis of risk exposure/lines of business, treaty types, management and legal structures as well as other factors. We also do not understand why specific criteria such as duration are needed for purposes of measuring these contracts.

In our view, the FASB should adopt a more principles-based approach in defining how contracts should be grouped into portfolios based on the underlying objective of aggregation.

9. Do you agree with the requirements included in this proposed Update on contract boundary (that is, the requirements that establish how to identify the future cash flows that will arise as the insurer fulfills its obligations)? If not, what do you recommend and why?

We agree with the intent of the requirements on contract boundaries, but think that the guidance should also consider whether or not contracts are priced, structured and managed on a long-term basis. For instance, some yearly renewable term contracts ("YRT") contain features that allow the reinsurer to reprice the contract and there are no limits to repricing that become commercially viable in most scenarios. This would imply that YRT contracts should be annual contracts. These contracts are however considered long-term contracts under current US GAAP. They are rarely repriced and are managed on a long-term basis. For instance, acquisition costs that in effect cover multiple accounting periods are usually incurred in the first year of the contract.

Fulfillment Cash Flows

10. Do you agree with the types of cash flows that would be included in the measurement of the fulfillment cash flows, including embedded options and guarantees related to the insurance coverage under existing insurance contracts that are not separated and
accounted for as embedded derivatives? If not, what cash flows do you think also should be included or excluded and why?

No, we think the scope of fulfillment cash flows should be widened to include other components related to fulfilling contractual obligations that are considered in pricing as well, including:

- Acquisition costs: See our response to question 29.
- Premium taxes: They are also integral to the fulfillment of the cash flows and should be included in scope.
- Fixed and variable overheads: Overheads that are directly attributable are considered a part of fulfillment cash flows in the IASB ED. The FASB definition appears to be more restrictive even if these costs are directly attributable to a portfolio of contracts.

In our view, it would be preferable if the FASB and the IASB developed converged, common principles that set the scope for fulfillment cash flows.

11. Do you agree that the assumptions used in the measurements of the fulfillment cash flows should be updated each reporting period? If not, what do you recommend and why?

We agree that assumptions should be updated every reporting period. We also believe that the changes in cash flow estimates related to changes in assumptions should be recognised in the margin. Please see our response to Question 13.

12. Do you agree that the fulfillment cash flows for contracts measured using the building block approach and the liability for incurred claims for contracts measured using the premium allocation approach should be based on an explicit, unbiased, and probability-weighted estimate (that is, the mean) of the future cash flows, as of the reporting date, expected to arise as the entity fulfills the contract, adjusted to reflect any contractual linkage between the contract and any underlying assets? If not, what do you recommend and why?

Yes, we agree conceptually with the guidance in the ED. We are however concerned that the wording of the measurement guidance could imply that changes to established actuarial practices are required and ask the Board to provide clarification on this point.

13. Do you agree with the approach in this proposed Update to recognize changes in estimates of cash flows (other than the effect of changes in the liability arising from changes in the discount rates) in net income in the reporting period? If not, what do you recommend and why?
No, we do not agree with the approach. We believe the margin should be unlocked for changes in estimates of all future fulfillment cash flows. The measurement of the liability will not provide an appropriate representation of the unearned profit that is expected to be recognized over the remaining coverage period if the margin is not adjusted to reflect changes in future cash flows after inception.

Discount Rates and Discounting

14. Do you agree that the discount rates used by the entity for nonparticipating 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 future cash flows should be adjusted for the time value of money and that the discount rate should be consistent with observable current market prices for cash flows whose characteristics match those of the insurance liability for nonparticipating contracts. We also support that entities can decide whether it is more appropriate to calculate discount rates starting from risk free rates plus a liquidity premium ("bottom up") or to begin with an asset based yield curve and then removing components not relevant to the liability characteristics ("top down"). We support the Board's view that the top down and bottom up approaches do not need to be reconciled and that a remaining difference in the liquidity premium between assets and liabilities does not have to be quantified. Given that this is a significant practical implementation issue, we would favor that the relevant wording is included in the Implementation Guidance.

15. For contracts measured using the premium allocation approach, do you agree that an entity should discount the liability for incurred claims? Do you agree that an entity should be allowed to elect not to discount portfolios when the incurred claims are expected to be paid within one year of the insured event? Why or why not? If not, what would you recommend and why?

We believe that discounting the liability for incurred claims is meaningful because it is material to many nonlife lines of business and moves the measurement closer to how we assess performance on an economic basis. We support the practical expedient of not discounting claims typically paid within 12 months of the incurred date.

16. Do you agree that an entity should segregate the effects of underwriting performance from the effects of changes in discount rates (which would reverse over time) by recognizing changes in the present value of the fulfillment cash flows due to changes in the discount rates in other comprehensive income? If not, do you think that the effect of changes in the discount rates should be presented in net income? Please explain your reasoning.
Yes, we support the Board's decision to introduce a measurement model in which changes in discount rates are recognised in other comprehensive income ("OCI model"). We also acknowledge the various objectives pursued by the Board in introducing the model. From a preparer's perspective, one of our main concerns is avoiding accounting mismatches that have no economic substance. Accounting should reflect the linkage between insurance contract liabilities and the assets backing them so that the resulting performance reporting is useful and understandable. Rather than enforcing consistency between reporting entities at all costs, insurers should therefore have the option of designating insurance contracts as measured at fair value through net income, as permitted under current US GAAP. Whereas this will not resolve accounting mismatches for insurance liabilities backed by assets with different measurement attributes, it would go a long way in reducing accounting mismatches.

17. Because the proposed guidance includes the approach under which changes in the insurance liability arising from changes in the discount rate should be recorded in other comprehensive income, do you think that a test should be required to trigger recognition in net income of some or all of the amounts in accumulated other comprehensive income (that is, a loss recognition test based on assets-liability mismatches)? Why or why not?

No, we believe that this is not necessary and would over-complicate the determination of the relevant balance in other comprehensive income.

18. Do you agree that the method for calculating the discount rates should not be prescribed? Is the proposed guidance on determining the discount rates understandable and operable? If not, what do you recommend?

Yes, we agree that the method for calculating the discount rates should not be prescribed. Also see our response to question 14. Discount rate assumptions will be disclosed, which will serve to achieve comparability.

19. Do you agree that interest expense generally should be based on the discount rates determined at the date the portfolio of contracts was initially recognized? Why or why not? If not, what do you recommend?

Yes, we believe that generally, interest expense should be based on the discount rates determined at the date the portfolio of contracts was initially recognized.

20. Do you agree that upon any change in expectations of the crediting rates used to measure the insurance contract liability for insurance contracts with discretionary participation features, the interest accretion rates should be reset in a manner that recognizes any
changes in estimated interest crediting and related expected cash flows on a level-yield basis over the remaining life of the contracts? If not, what do you recommend?

Yes, we agree that the rate should be reset on a prospective basis over the life of the contract.

Margin for Contracts Using the Building Block Approach

21. Do you agree that an insurer should not recognize a gain at initial recognition of an insurance contract (such a gain would arise when the expected present value of the cash outflows is less than the expected present value of the cash inflows) but, rather, should defer that amount as profit to be recognized in the future? Why or why not?

Yes, we agree that an insurer should not recognize a gain at initial recognition of an insurance contract. We believe that the amount should be deferred and recognized as the insurer fulfills the contract.

22. Do you support using a one-margin approach, as included in this proposed guidance, or an explicit risk adjustment and a contractual service margin (as the IASB proposes)? Please explain the reason(s) for your view.

No, we do not support the one-margin approach. We believe that the IASB proposal of introducing an explicit risk adjustment into the measurement of the insurance contract provides more decision-useful information to readers than the one margin approach. Whereas we agree that measurement of a risk adjustment requires significant judgment and that it is challenging to introduce it into a financial reporting environment, it results in a profit recognition pattern that is more closely aligned with the economics of the contract. With an explicit risk adjustment, a distinct earnings pattern and period can be set for the risk adjustment and the contractual service margin. We also note that risk measurement models are being scoped into financial reporting due to regulatory reporting requirements in various jurisdictions, so these issues are already being addressed by many insurers.

Convergence in this area in particular would be very useful in creating transparency and consistency for readers of financial statements.

23. If you support a risk adjustment and a contractual service margin, do you agree with the IASB's approach to adjust the contractual service margin for changes in estimates of cash flows? Why or why not? Do you agree with the IASB's approach to not specify acceptable approaches to determine the risk adjustment? Why or why not?

Yes, we believe that the contractual service margin should be adjusted for changes in estimates of cash flows because a locked in margin is conceptually at odds with the
inability to recognise gains at initial recognition. In addition, a locked in margin can lead to counterintuitive results when margins are released into earnings even though an entity starts to recognise losses due to changes in assumptions.

We however support the following changes to the IASB's proposed contractual service margin:

- The contractual service margin should be unlocked for changes in the risk adjustment. Changes in expected cash flows will affect the risk adjustment. Whereas the impacts may be less significant than the impact of expiry of coverage, it does not seem consistent to recognise these impacts in net income when the change in cash flow estimates are offset against the contractual service margin.
- The contractual service margin should only be reinstated after losses recognised in net income have been reversed. This provides a more faithful presentation of performance.

We also note that the FASB margin is adjusted for the impact changes in cash flow estimates have on the pattern of release of the margin into earnings. This already introduces some of the additional complexity to margin calculations triggered by unlocking of the margin and it may arguably make period to period changes in revenue or margins more difficult to explain than if the contractual service margin were fully unlocked.

We agree with the IASB approach of not specifying an approach to determine the risk adjustment. A consistent risk adjustment is not achieved by any particular methodology but through consistent application of a measurement objective that considers the characteristics of the risk. Methods to calculate the risk adjustment are likely to develop over time.

24. Do you agree that a loss at initial recognition of a portfolio of insurance contracts should be recognized immediately in net income (such a loss would arise when the expected present value of the cash outflows exceeds the expected present value of cash inflows)? Why or why not?

Yes, we agree that a loss at initial recognition needs to be recognized immediately in net income.

25. Do you agree with the proposed methods of recognizing the margin (that is, as the entity is released from risk under the insurance contracts as evidenced by a reduction in the variability of cash flows)? If not, what do you suggest and why?

We agree with the proposed method of recognizing the margin under a composite margin approach.
However, as indicated in our response to question 22, we prefer the IASB’s approach of recognising an explicit risk margin and a contractual service margin that is earned as services are provided under the insurance contract. The portion of the margin that represents unearned profit should be recognised over the coverage period, not the coverage and settlement period, as this is the time period over which the service to the client is provided. With regards to the pattern of earning the margin, we prefer the requirement in the IASB ED which refers to the remaining transfer of services that are provided under the contract.

26. Do you agree that interest should be accreted on the margin and therefore affect insurance contract revenue? If not, why?

Yes, we believe the margin represents the present value of expected profits at inception. Accretion represents the unwinding of the discount on the margin.

27. Do you agree that if the expected cash outflows (including qualifying acquisition costs) of a portfolio of insurance contracts will exceed the expected cash inflows, an entity should recognize the remaining margin immediately in net income? Why or why not?

We support the board’s view that contracts in an expected loss position should not show profits in subsequent periods attributable to margin releases. This issue can be avoided by unlocking the margin for changes in estimated cash flows. The board proposal on recognising the margin immediately in net income can lead to potentially misleading results in the period in which the expected loss is initially recognised.

We also recommend that the Board provide clearer guidance on how the testing of contracts in an expected loss position should be conducted.

**Acquisition Costs**

28. Do you agree that the direct acquisition costs presented with the margin should include only the costs directly related to the entity’s selling efforts that result in obtaining the contracts in the portfolio and that all other acquisition costs should be recognized as expenses when incurred? If not, what do you recommend and why?

No, we do not believe that direct acquisition costs should include only costs related to the entity’s selling efforts that result in obtaining the contracts. Costs that have to be allocated to unsuccessful efforts still are costs incurred for successful acquisitions of business as they are considered in the pricing of successfully acquired contracts. In addition, investments in a client relationship are likely to lead to successful efforts over time, so identifying and separating costs of successful from unsuccessful efforts seems arbitrary.
We are however aware of and have implemented the existing requirements introduced by ASU 2010-26.

29. Do you agree that the measurement of the margin for contracts measured using the building block approach and the liability for remaining coverage for contracts measured using the premium allocation approach should be reduced for direct acquisition costs incurred? If not, what do you recommend?

No. Acquisition costs are cash outflows that are part of fulfilling an insurance contract and should be treated similarly as any other cash outflow when determining the margin under the building block approach. We do not understand why the FASB and IASB have not issued converged guidance on this topic.

30. Do you agree that an entity should recognize acquisition costs as an expense in net income in the same pattern that it recognizes the margin for contracts measured using the building block approach or in the same pattern that it reduces the liability for remaining coverage under the premium allocation approach? If not, why not?

As stated in our response to question 29, we believe acquisition costs are cash outflows that are part of fulfilling an insurance contract and should be treated like any other cash outflow when determining the margin under the building block approach. Therefore, acquisition costs will emerge in net income as the margin is released.

Insurance Contract Revenue

31. Do you agree that users of financial statements would obtain relevant information that faithfully represents the entity's financial position and performance if, in net income, for all insurance contracts, an entity presents insurance contract revenue and incurred expenses, rather than only information about changes in margins (that is, the net profit)? If not, why not?

No, we do not agree with the proposed insurance contract revenue presentation approach. Presenting a net margin on the face of the statement of comprehensive income and presenting volume information in the notes is not ideal but still preferable over presenting revenue under the earned premium approach. As stated in the Basis for Conclusions, the FASB is aware of the difficulty in identifying one revenue recognition model that fits the diversity of contractual arrangements in the insurance industry, especially for long-duration contracts. Whereas the earned premiums approach has conceptual appeal because it can be derived directly from the margin, we do not think that it is a suitable tool for communicating volume information to investors. Reported revenue under this approach can only be explained by reference to actuarial models and it bears little relation to sales activity or services provided. The high cost of implementing the earned premiums
approach therefore is not warranted and we would prefer the net margin approach proposed in the IASB’s 2010 Exposure Draft on Insurance Contracts.

32. Do you agree that, for all contracts, revenue should exclude any amounts received that an entity is obligated to pay to policyholders or their beneficiaries regardless of whether an insured event occurs and that expenses should exclude the corresponding repayment of those amounts? If not, what do you recommend? Please specify whether your view depends on the type of contract.

No, we do not support the proposed guidance on estimated returnable amounts. The cash flows considered returnable by the Board are a significant component of insurance contract cash flows that cannot be separated based on the Board’s guidance on unbundling. The analogy with other entities that provide services is flawed because other industries do not have to consider whether the contract as a whole transfers insurance (or any other risk) or not before disaggregating additional deposit components.

In addition, the impact of disaggregating estimated returnable amounts from revenue and claims can lead to misleading presentation of performance. Amounts that are considered returnable are shown neither as revenue nor claims even though at contract inception, it will not be clear whether these balances will be repaid as, for instance, a profit commission or as claims, and financial statements will not reflect the insurers expectations in that regard. As claims are incurred, returnable amounts relating to actual incurred losses for catastrophic events, for example, may not be recorded through the income statement at all, and this will be nothing less than confusing for readers of financial statements.

33. For contracts measured using the premium allocation approach, do you agree that if the contract has a financing component that is significant to the contract, an entity should adjust the liability for remaining coverage to reflect the time value of money and recognize the accretion of interest with insurance revenue? Do you agree with the practical expedient that an entity should not be required to reflect the time value of money in measuring the liability for remaining coverage (that is, if the entity expects, at contract inception, that the time period between when the policyholder pays all or substantially all of the premium and when the entity provides the corresponding part of the coverage is one year or less)? If not, what do you recommend and why?

Yes, we support recognising the time value of money in the liability for remaining coverage for contracts measured using the premium allocation approach if the contract has a financing component that is significant to the contract. We also support the practical expedient that an entity should not be required to reflect the time value of money in measuring the liability for remaining coverage if the entity expects, at contract inception, that the time period between when the policyholders pays all or substantially all of the
premium and when the entity provides the corresponding part of the coverage is one year or less. We reiterate that we believe the premium allocation approach should be optional.

34. For contracts measured using the building block approach, does this proposed Update contain sufficient guidance on how to determine insurance contract revenue in accordance with the principle that it should be allocated between reporting periods as performance obligations are satisfied over time (that is, to allocate consideration between periods by reference to the relative value of the services provided in each period)? If not, explain what additional guidance is necessary.

As stated in our response to question 31, we do not agree with the insurance contract revenue presentation approach for contracts measured using the building block approach.

Participating Contracts

35. Do you agree that participation features that are contractually dependent on the performance of other assets or liabilities of the insurer or the performance of the entity itself should be measured on the same basis used to measure the underlying items and changes in the measurement should be presented in the same statements (that is, net income or other comprehensive income)? Do you agree that this approach should be limited to only participating features for which the amount of the performance of the underlying items passed through to policyholders is contractually determined and not extended to participating features that allow entity discretion about the amount of the performance of the underlying item to pass through to the policyholders? If not, what do you recommend and why?

Participating contracts do not form a major part of our business. However as indicated above we support a measurement model with an unlocked margin. Where the margin is unlocked we think that accounting for participating contracts should be consistent with the general building block approach. An example of how this could be applied is reflected in the CFO Forum comment letter to the IASB Exposure Draft on Insurance Contracts in Appendix 3 'Alternative approach proposed for participating contracts by the insurance industry'.

Reinsurance

36. Do you agree that a cedant should record a margin if the expected present value of the cedant's future cash inflows exceed the expected present value of the cedant's future cash outflows (thus prohibiting the recognition of a gain at inception upon entering into a reinsurance arrangement) for (a) retrospective reinsurance contracts accounted for using either the building block approach or the premium allocation approach and (b) prospective reinsurance contracts accounted for using the building block approach? If not, what do you recommend and why?
In our view, the margin on reinsurance contracts should be determined in a way that reflects how reinsurance acquired releases the cedant from risk, in line with how the Boards also define the recognition point for reinsurance contracts held. Therefore:

- For reinsurance contracts on aggregate loss basis, we support the Board’s approach in 834-10-30-31. The margin of the reinsurance asset should be solely based on the terms of the reinsurance contract.
- For reinsurance contracts where coverage is based on a direct proportion of the underlying insurance contracts, cash flows on the reinsurance contract from an economic perspective fully depend on the underlying direct insurance contracts held. The cedant is no longer subject to the risks covered under the reinsurance contract, which should be reflected in a strong link between the margin of the reinsurance contract held and that of the underlying original insurance contract. Gains and losses on ceded reinsurance should therefore be recognised at inception of the contract in proportion to the risk ceded.

The approach described above supersedes any difference in measurement between prospective and retroactive contracts. We note, however, that the treatment of gains and losses on reinsurance contracts held as proposed is generally inconsistent. We do not understand the conceptual basis for requiring deferral of gains and losses on prospective reinsurance contracts but requiring deferral of gains and immediate recognition of losses on retroactive contracts.

37. Do you agree that a cedant should estimate the fulfillment cash flows (including the ceded premium) for a reinsurance contract using assumptions consistent with those used to measure the corresponding fulfillment cash flows for the underlying insurance contract or contracts, without reference to the margin on the underlying contracts? If not, what would you recommend and why?

As noted in our response to question 36, for reinsurance contracts on an individual loss basis, measurement of the reinsurance contract should take account of the margin on the underlying contract.

**Insurance Contracts Acquired in a Business Combination**

38. Do you agree that entities should record a loss at the acquisition date in the amount by which any excess of the asset and liability balances related to insurance contracts measured in accordance with the guidance in this proposed Update exceeds the fair value of those assets and liabilities? Do you agree that entities should record a margin (not an immediate gain) for the amount that the fair value of the asset and liability balances exceeds those assets and liabilities measured in accordance with the guidance in this proposed Update? If not, do you think an entity should instead increase or decrease
goodwill for the differences between the fair value and the measurement in accordance with the guidance in this proposed Update on those assets and liabilities? Why or why not?

No, we disagree with the requirement to record a loss at the acquisition date on individual portfolios for which the fair value is above (below) the insurance asset (liability) as measured under the BBA, and we support the IASB approach to effectively capture that difference in goodwill.

**Contract Modifications**

39. Do you agree that for a substantial modification (a) an entity should recognize a gain or loss as the difference between the measurement of the modified contract using the current entity-specific price that the entity would hypothetically charge the policyholder for a contract equivalent to the new contract and the carrying amount of the existing contract and (b) that the carrying amount of the existing contract should be derecognized? If not, what do you recommend?

In our view, the contract modification guidance can be simplified if the board reverts to an approach where margins are unlocked for changes in cash flows. Changes to terms and conditions that are not considered in the contract and have to be agreed by both parties could also be captured under the measurement model with unlocked assumptions and an unlocked margin for all cases where a modified contract remains in the same portfolio.

**Presentation**

40. Do you agree with the presentation requirements included in this proposed Update? If not, what would you recommend and why?

Paragraph 834-10-30-33 requires that a cedant should recognize fixed ceding commissions and other fees that are expected to be received from the reinsurer that are not contingent on claims and benefits experience as a reduction of premium ceded to the reinsurer. Likewise, the reinsurer has to recognise fixed commissions paid to the cedant as a reduction in revenue as per paragraph 834-10-30-35. Ceding commissions and other fees that are expected to be received / paid from / by the reinsurer and that are contingent on claims and benefits experience are to be netted against claims as loss sensitive features.

We do not agree with these requirements as this in effect creates a different presentation model for reinsurance contracts than for other direct contracts where such a difference is not warranted. This will also lead to reduced comparability between reinsurer results where the only difference in economics will be related to counterparty credit risk. For instance:
In cases where the reinsurer reimburses the cedant for acquisition cost paid, cedant net revenue will overstate the amount of risk retained.

Reinsurers will show different revenue depending on how business is placed.

Reinsurers will show different revenue depending on payment terms for broker commissions. In some cases, the cedant pays the broker commission on reinsurance contracts and is reimbursed by the reinsurer for all or portions of the commission paid.

Reinsurance ceding commissions should be shown separately and not netted against reinsurance premiums or claim reimbursements in the statement of profit or loss for both the cedant and the reinsurer.

Disclosure

41. Do you agree with the disclosure requirements included in this proposed Update? If not, which disclosure requirement(s) would you change and why? Are there any additional disclosures that would provide decision-useful information and why? Do you think that any of the disclosure requirements included in this proposed Update would not provide decision-useful information and should not be required? If so, which ones and why?

We do not agree with the disclosure requirements included in this proposed Update. The requirements are overly prescriptive and detailed and will cause the volume of disclosures to increase to an extent that significantly complicates attempts to obtain decision-useful information from notes.

Much of the additional information to be disclosed is based on forward-looking information with high levels of subjectivity and judgment. Some of this information is currently disclosed outside of the audited financial statements, such as in Management’s Discussion and Analysis. Moving these types of disclosures to the body of the financial statements will require that such data be covered by the criteria established in internal control standards and scoped into financial statement audits. Running that information through an auditable reporting process to comply with prescriptive disclosure requires significant additional procedures and controls to be implemented.

The following are comments for specific proposed disclosures for your consideration:

Estimated Returnable Amounts

The requirements to disclose the amounts payable on demand from estimated returnable amounts, total estimated returnable amount excluded from premiums and claims/benefits as well as the portion of fulfillment cash flows paid during the reporting period attributable to estimated returnable amounts are operationally burdensome to implement. Also, it is not clear to us why the Board does not ask for disclosure of estimated returnable amounts from revenue and claims in a given reporting period. Overall, the disclosure requirements
will only provide information on a component of insurance contracts which should not be considered on a standalone basis due to the reasons listed in our response to question 32.

**Risks**
Requirements to disclose information about the sensitivity to insurance risk before and after risk mitigation by reinsurance in paragraphs 834-10-50-28 to 50-32 are too prescriptive and technical to be useful to users of financial statements. We are also concerned that the guidance may require disclosure of proprietary information. We suggest that instead of being prescriptive, the disclosure requirements regarding risk mitigation be more general and be principle based.

**Effective Date and Transition**

42. The Board will establish the effective date of the requirements when it issues its final amendments. However the Board is interested in determining the key drivers affecting the timing of implementation. What are those key drivers? How do those drivers affect the time it will take to implement this proposed guidance?

The Swiss Re Group uses an economic valuation model ("EVM") to steer and monitor the performance of the group. EVM is embedded in various aspects of group operations, including pricing of contracts, and an economic profit and balance sheet under EVM are also reported externally in an aggregated format. EVM relies on underlying concepts that are similar to the building blocks approach. Despite these similarities, the requirements in the ED leads changes in almost all aspects relating to accounting for insurance contracts that extends through the whole financial reporting process.

Specific operational aspects to consider include:
- Changes to operational set up and specification of existing systems to capture and aggregate cash flow data under different specifications across the whole financial reporting process (portfolio definition, assignment to measurement models, contract boundaries, distinguishing changes in assumptions from experience adjustments) as well as items currently not identified at all such as identifying and aggregating input data to calculate estimated returnable amounts.
- Significant efforts needed to assess impacts on transition, ranging from data sourcing to the significant management judgment needed to apply the practical expedients.
- Modification of existing processes and controls currently not in the financial reporting scope that are not conducted on quarterly basis.
- Sourcing data and developing process/controls for new disclosure requirements.
- Efforts required to hire and train staff charged with implementing and applying the new guidance.
• Extensive outreach efforts needed to investors, analysts and other stakeholders; new key performance metrics will become necessary to facilitate communication of results.

Given the inherent difficulty in implementing these changes in conjunction with other forthcoming changes in guidance affecting insurance entities, at least a three year implementation period is required from the date of the issuance of a new standard.

43. Do you think the effective date should be the same for both public and nonpublic entities? Do you think the effective date should be the same for regulated insurance entities and other entities that issue insurance contracts within the scope of this proposed guidance? Why or why not?

We have no comment on this topic.

44. Do you agree that practical expedients relating to transition included in this proposed guidance are sufficient for retrospective application (that is, are the transition provisions in this proposed guidance operable)? If not, what would you recommend and why?

We support retrospective application of the revised guidance and the application of practical expedients to reduce complexity while obtaining valuations at transition that are in line with the underlying measurement objectives.

The main issue identified with regards to application of the new guidance relates to the expedients allowed for estimating the margin at transition. First, reporting entities need to estimate the margin at inception. As a next step, the margin has to be rolled forward accounting for all portfolio changes, contract modifications, resetting the margin release pattern for changes in expected cash flows, and considering events leading to recognition of the margin in net income in accordance with section 834·10·35·22 based on information available at each reporting date. If the margin at inception — subject to the impracticability exemption — or at any of the intervening reporting periods cannot be calculated due to lack of availability of objective evidence that is free of hindsight, the margin has to be set to zero. In our view, allowing entities to calculate a margin incorporating hindsight at transition provides results in a significantly better valuation than defaulting to a margin of zero.

45. For business combinations that occurred before the transition date, is the requirement included in this proposed Update on reallocating the fair value of the asset and liability balances related to insurance contracts between the expected fulfillment cash flows and the margin operable? Why or why not? If not, what would you recommend and why?

Application of the transition provisions are operable to the extent that a company has retained portfolio-level fair value information on insurance contracts used to originally
apply business combination accounting or succeeds in reconstructing this information. However, we believe practical expedients should be developed if the relevant information is not available.

46. Do you agree that the proposed approach to transition would provide users of financial statements with the relevant information that faithfully represents the entity's financial position and performance in a way that appropriately balances comparability with verifiability? Why or why not?

As stated in our response to question 44, we support the Board's decision to require full retrospective application with a limited number of practical expedients but we think that the practicability exemption relating to calculating the margin should extend to unlocking assumptions at transition and using the benefit of hindsight if the historical margin cannot be calculated. We also support the practicability exemptions provided for determining the discount rate as of the initial recognition of insurance contract portfolios.

Costs and Complexities

47. Describe the nature of the incremental costs of adopting the guidance in this proposed Update, distinguishing between one-time costs and ongoing costs. Explain which aspects of the guidance in this proposed Update are driving those costs and include ideas to make the proposal more cost effective.

One-time costs are mainly driven by initial systems investments as well as costs related to transition requirements. We also think that recurring costs are significant and will relate to identification, aggregation and reporting of new data as well as developing processes to perform and report the judgmental aspects of the ED.

48. Describe the nature of the incremental costs of auditing the financial reporting requirements included in this proposed Update, distinguishing between one-time and ongoing costs. Explain which aspects of the model in this proposed Update are driving those costs.

Given the significant increase in the amount of forward looking information, the high degree of judgment required in applying the new requirements and the significant complexity of the new standard, we also expect a significant increase in the audit cost on an ongoing basis, compared to the audit cost under current US GAAP.