



LETTER OF COMMENT NO. 155



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

April 14, 2009

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
(Email: commentletters@iasb.org)

Dear Sir

Re: IAA comments on the IASB Discussion Paper, *Preliminary Views on Financial Statement Presentation*

In response to the request for input on the IASB's Discussion Paper on its Preliminary Views on Financial Statement Presentation, 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 wish to pursue, please do not hesitate to contact the chairperson of that committee, Sam Gutterman, or any of the other members of the committee. The IAA will be glad to develop these ideas further with you.

Yours sincerely

Yves Guérard
Secretary General

Attachment: IAA comments

**A Commentary on the
DISCUSSION PAPER
PRELIMINARY VIEWS ON FINANCIAL STATEMENT PRESENTATION
Released by the International Accounting Standards Board: October 2008**

International Actuarial Association

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-two Full Member actuarial associations represent more than 95% of all actuaries practicing around the world and are listed in an Appendix to these comments. 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.

IAA Commentary

The IAA commends the IASB for addressing substantive financial reporting issues such as financial statement presentation. These comments have been prepared by a task force of our Insurance Accounting Committee, the members of which are listed in the Appendix. This letter has 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 web site.

We believe that the primary objective of financial statements is to enhance the usefulness of the information provided to the users of the financial statements. As such, we support the major thrust of the proposals included in the Discussion Paper. The enhanced flexibility and relevance of the information to be provided, subject to cost/benefit concerns, should provide more useful information than provided for by current standards. In addition, as it is not possible to develop a one-size-fits-all presentation model, the proposed approach should enhance the value of the information presented, although it may reduce comparability between certain entities. The more that external financial information is consistent with information provided for internal management information and risk management purposes, the more useful the presentation will be to its users.

Because most of the following discussion relates to the potential application of the resulting presentation to insurance entities, we have limited our response to the following overall comments.

We believe that a consistent classification of items in the basic financial statements, applied on the basis of how management uses the items internally, should enhance the ability of users to assess an entity's performance. Although the proposed definitions of categories do not appear unreasonable, similar entities may categorize some of their operations in an inconsistent manner. We suggest that adequate application guidance be provided to facilitate reasonably consistent presentation.

Actuaries should be able to split insurance contract liabilities and assets to accommodate the proposals in the Discussion Paper should they be adopted, with the understanding that the use of additional estimates would be required for some of these splits. However, regarding the

proposed cash flow statement, although certain information provided by the direct cash flow method may be of use in some cases, we note the difficulties that may result from the common use of insurance company transactions made on a net basis, particularly those 'net settled' (combining both asset and liability cash flows associated with the same counterparty) and certain inter-company transactions, where the split between cash income and outgo is currently not easily available.

It is our view that a presentation order for *financial* assets and liabilities based on liquidity would be useful, while for *insurance* assets and liabilities, a split between short-term and long-term obligations would provide more meaningful information and would be more consistent with the manner in which the insurance industry manages its business. While it might seem that having such a different order would cause confusion, it is our belief that this would lead to a better understanding of the liquidity risk for an entity, since short-term liabilities might need to be met by selling the most liquid assets. This is also important for a more consistent presentation of insurance assets and liabilities, since they are frequently interrelated (for example, the reinsurance asset for a ceded reinsurance contract is generally only recovered when payment of the underlying liability by the direct insurer occurs).

Although a clear reconciliation from the statement of comprehensive income to the statement of cash flows and an explanation of the changes between the opening and closing balance sheet would be useful in many instances, the reconciliation exhibit proposed in the paper between the cash flow statement and the income statement would not be particularly useful for insurance companies. In general, cash flows are less important for analyzing insurance companies than, for instance, manufacturing companies. Although the cash flows of a life or non-life insurance company with growing premium volume are typically strongly positive, this contributes primarily to increases in liabilities rather than to earnings. Therefore, positive cash flows will not necessarily be indicative of a strong company with strong earnings. Similarly, an insurance company that has exited a line of business may experience negative cash flows, but this would likely be of limited concern (and would not necessarily be indicative of any problem) to the extent that its liabilities and assets were matched. In general, positive or negative cash flows for insurance operations are more indicative of growth than of earnings.

In addition, a reconciliation between income and operating cash flows might prove useful. Information about the ability to meet its commitments and its financial flexibility can be provided by a reconciliation of opening and closing net borrowings.

There are many other analytical presentation tools that are important to insurance companies that should be addressed in the Insurance Contracts project, such as earnings by source for life insurance companies and claims run-out triangles for non-life insurance companies. In particular, the precise format for the claims run-out exhibits should be addressed in further discussions. For example, the exhibit currently required under U.S. GAAP is far less useful to users than the corresponding exhibit required for U.S. statutory reporting.

We believe it is important to show separately the effect of re-measurement of liabilities, including amounts where actual claim run-outs are different from their prior liability estimates, from other income. Our preference would be separate disclosure in the Notes.

In addition, we note that, if practical, it would be desirable that each of the income statement and balance sheet could be presented in a single page.

We believe that a separate project or effort may be needed to provide a principles-based description of the components of other comprehensive income effectively. A fundamentally sound and consistent separation between other comprehensive income and profit and loss would enhance the value of entities' financial statements.

We also look forward to providing more detailed recommendations for insurance company disclosures as part of the Insurance Contracts project.

Appendix A

Members of the Financial Statement Presentation Task Force

Henry Siegel	Chairperson
Ralph Blanchard	American Academy of Actuaries
Morris Chambers	Canadian Institute of Actuaries
Jim Milholland	
Derek Wright	Institute of Actuaries

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Dieter Silbernagel	Deutsche Aktuarvereinigung e.V.
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Derek Wright	Institute of Actuaries
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Jesús Zúñiga	Colegio Nacional de Actuarios A.C.

Full Member Associations of the IAA

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Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgique)
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Bulgarian Actuarial Society (Bulgaria)
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Caribbean Actuarial Association
Actuarial Institute of Chinese Taipei (Chinese Taipei)
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Actuarial Society of the Philippines (Philippines)

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Academia de Actuarios de Puerto Rico (Puerto Rico)
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Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
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American Society of Pension Professionals & Actuaries (United States)
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