



Canadian Life  
and Health Insurance  
Association Inc.

Association canadienne  
des compagnies d'assurances  
de personnes Inc.



LETTER OF COMMENT NO. 203

April 14, 2009

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

**Re: Discussion Paper - Preliminary Views on Financial Statement Presentation**

Dear Sir/Madam:

The Canadian Life and Health Insurance Association appreciates the opportunity to comment on the Discussion Paper "Preliminary Views on Financial Statement Presentation". CLHIA is the national trade association for life and health insurers in Canada and its members account for 99% of the life and health insurance in force in Canada and administer about two-thirds of Canada's pension plans.

In general, we believe that many of the proposed changes will improve the understandability and decision usefulness of the information presented in financial statements. However, we do have concerns about certain of the proposals, particularly around the following:

- Disaggregating too much detail in the primary financial statements
- Requiring separate presentation of cash and cash equivalents
- Mandating use of the direct cash flow method
- Mandating a reconciliation of cash flows to comprehensive income along with a disaggregation of comprehensive income into a number of different components.

In this regard, we are supportive of the views expressed by the CEA in its submission to the IASB on the Discussion Paper. Given the uniqueness of our industry, a strict application of the generalized principles laid out in the Discussion Paper can be inconsistent and in direct conflict with how management actually operates the business. We therefore recommend that the IASB continue to provide financial institutions the flexibility they need to prepare financial statements in a meaningful way for their users.

Our detailed responses to selected questions are included in the attached Appendix.

Sincerely

James S. Witol  
Vice President, Taxation & Research

1 Queen Street East  
Suite 1700  
Toronto, Ontario  
M5C 2X9

1, rue Queen Est  
Bureau 1700  
Toronto (Ontario)  
M5C 2X9

Tel: (416) 777-2221  
Fax: (416) 777-1895  
www.clhia.ca

Tél.: (416) 777-2221  
Fax: (416) 777-1895  
www.accap.ca



## APPENDIX - Responses to Discussion Questions

1. Would the **objectives of financial statement presentation** described in paragraphs 2.5 - 2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers?

Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

### Response to Question 1

With respect to the *disaggregation objective*, we believe this should be balanced against the IFRS Conceptual Framework characteristic of understandability. We believe there is a benefit in keeping the financial statements clear and concise.

While additional disaggregation may have some value to users, they should not be overburdened with excessive detail such that the information becomes difficult to comprehend. We feel this may be the case if additional financial statement disaggregation becomes mandatory.

If there are specific areas of concern to the Board, we believe disclosures would be more appropriate for these areas rather than requiring additional segregation across all financial statements and across all industries. In particular, any additional disaggregation required by function or by nature would be better received in the notes to the financial statements.

We recommend that the level of disaggregation be flexible such that management can determine what is most appropriate in the circumstances and in conjunction with the level of segment disclosures to be made using the management approach referred to below. Segment information is typically inquired upon by analysts and other users and is there to provide them with the more detailed management perspective of the operations.

5. The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segments (see paragraphs 2.27, 2.34 and 2.39 - 2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?



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(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

#### Response to Question 5

We believe that a management approach to the classification of the financial statement components would be the most useful basis for Financial Statement presentation. If the fundamental accounting principles of the IFRS framework are being followed for the major components of the financial statements, and if the related accounting policies for management's presentation are appropriately disclosed, we believe any perceived reduction in the comparability of financial statements across companies will be offset by improved relevance.

We urge the Board to carefully consider any guidance about what would constitute a change in accounting policy or classification that would be treated retrospectively versus one that would be treated prospectively.

For example, according to the Discussion Paper, any change in the way that management classifies assets and liabilities would be considered a change in accounting policy with retrospective implementation. While we understand that this may be useful for comparability purposes in some circumstances, we also see this as potentially confusing for readers to follow and costly to prepare particularly if a particular asset changes classification / use from one period to the next. The way an item is used by management could change over time and therefore its classification could change too. For example, a derivative hedging financial liability not qualifying anymore for hedge accounting may need to be reclassified to operating. Restating financial statements from prior periods would not reflect the effective use of these items in previous years.

9. Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31 - 2.33 and 2.63 - 2.67)? Why or why not?

10. Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately (see paragraphs 2.34 and 2.56 - 2.62)? Should the financing section be restricted to *financial assets* and *financial liabilities* as defined in IFRS and US GAAP as proposed? Why or why not?



## Response to Questions 9 and 10

We recommend that the IASB factor in the unique nature of financial institutions in further developing this Standard. Specifically, we would like to see guidance on how an insurer (or other financial institution) would determine whether an item should be classified within either the operating or investing category.

The definition of *investing category* in the Discussion Paper suggests that the category should only include “business assets and business liabilities, if any, that management views as unrelated to the central purpose for which the entity is in business”. For financial institutions, investments are obviously an important part of the operations. A strict reading of this definition could result in financial institutions moving nearly all of their traditional investing activities to the financing or operating categories.

Without flexibility, we believe this requirement could potentially reduce the usefulness of the cash flow statement for insurers since many users will question why an insurer's “investing activities” can not be found under the investing category.

11. Paragraph 3.2 proposes that an entity should present **a classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect **not** to present a classified statement of financial position? Why?

(b) Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity**? If so, what additional guidance is needed?

## Response to Question 11

We agree with the Board's view towards continuing to allow assets and liabilities to be presented in order of liquidity in cases where it is more relevant; the insurance industry is a good example of an industry for which the liquidity presentation would be most relevant. Our operating cycle cannot be defined by the typical short-term and long-term maturity split and thus the liquidity method is more relevant for our financial statement users.



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We do not believe guidance is needed in this determination and suggest that the form of presentation be left to management's judgement based on the particular circumstances.

12. Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

### Response to Question 12

We do not agree with the Board's view that excluding cash equivalents from the amount of cash is more appropriate.

In the insurance industry, in order to improve investment returns, cash balances needed for short-term requirements are typically invested in the types of instruments that would meet the cash equivalents definition; such instruments are very close to cash. The combined term "cash and cash equivalents" is viewed as being more useful to financial statement users in communicating information about the liquidity of the balance sheet and the resources we have to meet short-term needs. Separation would not enhance the relevance characteristic of financial statements and further, we do not see this proposal as being consistent with the Discussion Paper's goal of providing statements that better reflect management's view of the operations.

In our view, we do not feel that the risks associated with cash equivalents are so fundamentally different from the risks associated with holding currency at a deposit-taker that it requires a presentation change. If the Board continues to have concerns, we believe they could be more adequately handled through note disclosure of the risks and of the component parts. If an unusual event causes cash equivalents to become impaired, the normal impairment provisions would apply with a charge to profit and loss and appropriate note disclosure. The IASB could also recommend companies provide credit rating disclosure of any material cash equivalent balances held that are below a selected investment grade.

We are particularly concerned that this proposal will result in a cash flow statement that excludes cash equivalents. Insurers manage cash equivalents together with cash and any split between the two for presentation purposes would not only be contrary to the application of a management approach but would also result in a meaningless cash flow statement as it will exclude a significant part of our liquid day-to-day resources.

16. Paragraphs 3.42 - 3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues,



expenses, gains and losses **by their function, by their nature** or **both** if doing so will enhance the usefulness of the information for predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

### Response to Question 16

Please see our response to Question 1.

19. Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75 - 3.80) than an indirect method? Why or why not?

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

20. What **costs** should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81 - 3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

### Response to Questions 19 and 20

While we recognize that the direct method does have some merits, we do not agree with a proposal that would require it.

The indirect method is the method most widely used and financial statement users are generally comfortable with it. The indirect method provides a clear and direct link (or reconciliation) between income items and the actual cash from operations while also drawing the user's attention to the non-cash items that were included in income. We believe this information is useful and understandable.

In addition to the comments above, given the amount of information already provided in financial statements and given that users are assumed to have a



reasonable knowledge of business and economic activities, we question whether or not any significant benefits would be achieved by using the direct method. This would particularly be true for the insurance industry where an entity's cash flows, under either method, have little value in predicting future cash flows; for example, many users will look to other information such as sales, sources of earnings, actuarial assumptions etc. In our view, the required use of the direct method would not provide information that is more useful and understandable.

The costs of implementing the direct method would be considerable. Significant system and financial statement consolidation process changes would be necessary to implement this method and there would be an ongoing reporting cost associated with the added complexity involved. Since in our view there is little incremental benefit, if any, in using one method versus the other, we believe the costs of requiring the use of the direct method outweigh its benefits for our industry.

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed **reconciliation schedule** increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44 - 4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

### **Response to Question 23**

While the proposed reconciliation schedule between the Cash Flow Statement and the Statement of Other Comprehensive Income provides some insight into how the statements interlink and arguably provides evidence that the accounting records reconcile, we believe such a schedule is unnecessary and provides too much information that is not useful or relevant to users of Financial Statements. The level of reconciling adjustments and explanation required will be extremely lengthy for businesses with long



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operating cycles, such as our industry, and therefore potentially confusing. We do not believe the information is particularly relevant to users in predicting future cash flows or assessing management stewardship.

Accordingly, in our view the additional costs of implementing and maintaining such a schedule would exceed its benefits. In general, we believe the existing Financial Statement presentation requirements for the Statement of Cash Flows and Statement of Other Comprehensive Income are sufficiently adequate for user needs.