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## Allianz SE Comment Letter on IASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers*

Dear Sirs or Madams,

We appreciate the opportunity to comment on the IASB Discussion Paper *Preliminary Views on Revenue Recognition in Contracts with Customers.* 

As a member of the European Insurance CFO Forum (CFO Forum) we would like to state that we endorse the comment letter submitted by the CFO Forum and the Comité Européan des Assurances (CEA) dated June 16, 2009. Therefore we will not comment in this letter on the very good elaboration of the CFO Forum/CEA on the following points:

- Premium income should be recognised at contract inception in order to offset initial acquisition costs
- Valuation of the performance obligation (measurement attribute) as basis of the revenue recognition model has wider implications for the measurement of insurance liabilities
- Initial measurement should be based on the "market consistent fulfilment value" (economic value)
- Insurance contracts should be remeasured on an ongoing basis to reflect changes in assumptions and release from risk
- Unbundling might lead to arbitrary judgement calls and inaccuracy in the measurement
- Unit of account is an important consideration for estimating the value of contracts

However, Allianz would like to emphasize and further elaborate on the specific issue of whether insurers should be "scoped in" the new revenue recognition standard. Our additional comments are summarised as follows and elaborated in more detail in the subsequent paragraphs:

- There should be one single revenue recognition model that can be applied by all entities across all sectors. This will enable entities to provide comparable information to the capital markets, which will benefit users of financial statements.
- In order to enable all entities across all sectors to use one single model the revenue recognition model must be broadened and principle-based.

The Board proposes in the discussion paper a single, contract-based revenue recognition model that should be applied by entities of all industries. In consequence it is expected that entities will recognize revenue more consistently and hence, the comparability and understandability of revenue for users of financial statements will be enhanced.

We absolutely agree with this approach and believe that the new standard should present an approach for revenue recognition that can be applied by entities of all industries including insurance companies. This enables companies to satisfies capital market's users' needs. We believe that financial statements will be easier to understand and to compare within and across sectors based on one single model. This is for the benefit of the users, as well as of the companies, because market comparison is an important feature for all sectors. While insurance contracts have unique features, the importance of market comparison is no less important to insurers than to any other sector.

Within the discussion paper the Board acknowledges the possibility to scope insurance companies out of the revenue recognition standard because the currently proposed approach might not provide decision-useful information about all types of insurance contracts (5.89). This is particularly the case when it comes to contracts with highly uncertain inherent characteristics (i.e. annuity contracts or investment-orientated products) or with a long claim reporting period (i.e. workers compensation contracts where claims may arise many years after the period of coverage). We would like to highlight that other industries suffer the same complexity within their contracts. Banks, for example, provide products with long-term or even indefinite contract durations and with several components that are highly interdependent. Companies in many sectors provide long-term service contracts for maintenance or construction where the usage is unsure and the contract duration can depend on various factors. In our view it is therefore preferable that the principles for revenue recognition should be broadened so that the new standard can be applied to complex, long duration contracts and not only to simple contracts. Application and/or implementation guidance could be included to provide additional information for insurance and other sectors.

With regard to insurance companies broadening the principles means that both revenue recognition and performance measurement of insurance contracts should be based on measurement of the combined rights and obligations. The performance obligation under insurance contracts is standing ready to bear risk, consequently each day of the contract duration would be seen as a partial fulfillment of the obligation. Thus, revenue recognition should happen continuously over the contract period.

In summary, we do recommend that all entities of all industries, including insurance companies, should fall within the scope of the new revenue recognition standard. This means the Board should change the current proposal of the discussion paper into a broad and principle-based approach and application and/or implementation guidance specific to certain industries with more complex, long duration services/products.

We would be pleased to discuss our comments with you.

Yours sincerely,

Louise Jordan

Vice President

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