February 15, 2013

Mr. Hans Hoogervorst, Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH, United Kingdom Ms. Leslie F. Seidman, Chairman Financial Accounting Standards Board 401 Merrit 7 Norwalk, CT 06856-5116

Re: Insurance Contracts – November 2012 Agenda Paper 2A/95A- Discount rate-Contracts' whose cash flows to which mirroring does not apply to but are affected by expected asset returns

Dear Mr. Hoogervorst and Ms. Seidman:

At the November 20, 2012 joint IASB/FASB meeting to discuss accounting for insurance contracts, Agenda Paper 2A/95A: Discount rate-Contracts' whose cash flows to which mirroring does not apply to but are affected by expected asset returns, the boards tentatively decided that the discount rate reflecting the characteristics of the contract's cash flows shall reflect the extent to which the estimated cash flows are affected by the returns from those assets. The subsequent update to the IASB tentative decisions document (December 2012 Agenda paper 2) modified Topic # 7: Discount rate and contained the following clarification:

- (iv) reflect any dependence between the amount, timing or uncertainty of the cash flows arising from an insurance contract and the performance of specific assets (ie for participating contracts). This would be the case regardless of whether the:
- 1. transfer of the expected returns of those assets are the result of the exercise of the insurer's discretion, or
- 2. the specified assets are not held by the insurer.

Many companies, accountants, and actuaries have concerns about these clarifying decisions, particularly when taken in conjunction with discussion at the November board meeting and the example contained in Appendix C of the November Agenda Paper. The example illustrates an approach that insurers might use to determine the discount rate and separates cash flows into two categories, one deemed asset dependent and one not deemed asset dependent.

Any (implementation) guidance that implies or requires separate discount rates for asset dependent (non-guaranteed) cash flows and for non-asset dependent (guaranteed) cash flows poses significant theoretical and operational problems and may lead to incorrect measurement of the insurance liability.

## Recommendation

To avoid becoming too prescriptive for diverse and complex actuarial valuations (and risk incorrect valuation) detailed implementation guidance is not warranted and examples should not be presented as the examples may be interpreted as an expectation. If implementation guidance is desired, we recommend the following:

"No single prescribed method to determining the discount rate is contained in this standard since to do so would be limiting and counter to the principle-based objective. In determining the discount rate, all relevant cash flows associated with the portfolio of insurance contracts, i.e., cash flows related to options, guarantees, and nonguaranteed components, should be taken into

account. To the extent projected liability cash flows are dependent on asset returns, the discount rate should reflect that dependence. This dependence should not be interpreted to require the separation of cash flows into asset dependent and non-asset dependent components with different discount rates.

For cash flows in the insurance contract that are not subject to mirroring and that are affected by asset returns, upon changes in expectations of those cash flows (for example, the crediting rate or surrenders) used to measure the insurance contracts liability, an insurer should reset the locked-in discount rates that are used to present interest expense for those cash flows. The initial locked-in discount rate should be the then current market-consistent rate at the time of issuance. It shall be changed in a manner consistent with the determination of the projected non-guaranteed elements such as crediting rates which may often be based on amortized cost or "book yield." Note that while this suggestion would impact the split between profit and loss versus other comprehensive income, it would not impact the liability amount reported on the balance sheet.

These recommendations apply similarly to the separation of cash flows for participating contracts for which mirroring applies. While this letter addresses specific measurement issues associated with contracts affected by asset returns, it is not an all inclusive list of issues. We have other concerns (e.g., IASB's 8-7 vote against the staff's proposal for a full floating residual margin) and will communicate these issues separately at a later date.

If you have any questions, please contact Mike Monahan, MikeMonahan@acli.com.

Sincerely,

Allianz SE

American Council of Life Insurers

Assicurazioni Generali

Canadian Life and Health Insurance Association Inc.

Genworth Financial, Inc.

Manulife Financial

MetLife

New York Life Insurance Company

Cc: Andrea Pryde, IASB staff
Jennifer Weiner, FASB staff