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Chairman

JH

N°6

Paris, the 13rd January 2011

IASB
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Re : ED IASB INSURANCE CONTRACTS

Dear Madam or Sir,

We are convinced that the ultimate aim of financial statements should be to reflect the underlying economic activity and performance of the entity in order to provide decision-useful information to users.

The measurement model for insurance contracts proposed in the ED would not portray the performance of insurers as short-term market volatility that is not representative of the medium to long term horizon of the insurance business model would be mechanically recognised in the income statement at each reporting date. As a result, the users will not be provided with decision-useful information to assess the real performance of insurers over time.

In addition, we note that the proposals for the measurement of the insurance contracts have been developed considering an unique perspective, that of the measurement of financial assets at fair value through profit or loss. Therefore, the other fundamental characteristic of the insurance business model, i.e. the asset/liability management and thus the interactions between the respective measurements of these assets and liabilities, is also not appropriately taken into consideration, resulting in an accounting mismatch.

Moreover, the financial crisis has highlighted the limits of the reference to market data and we consider that the IASB should consider how to draw the consequences of that for the measurement of the insurance contract liabilities in the same manner as the IASB has drawn them for the other entities and especially for banks, by providing a mixed model measurement for financial instruments.

Therefore, we urge the IASB to develop alternative measurement approaches that would eliminate the undue volatility in the income statement which does not appropriately reflect the time horizon of insurance activities.

In this respect, we recommend that the IASB investigates the following solutions for the contracts covered by the ED, coupled with a prospective adjustment of the residual margin for the future changes in the estimates other than those resulting from the discount rate:

- locking in at inception the discount rate used for the insurance liabilities, will the backing assets be measured at amortised cost;
- presenting in OCI, separately from the income statement, the changes in value of the insurance liabilities due to the changes in the discount rate and the changes in the value of the backing financial assets (debt or equity instruments), with recycling through the income statement, should the insurance contracts and these financial assets be measured on a current value basis. This proposal for the measurement of these financial assets is consistent with our comment letter on IFRS 9.

In addition to the misrepresentation of the performance of insurers that results from these proposals, we also have the following other fundamental concerns with the ED:

- the lack of clarity of unbundling requirements for both insurance contracts and investment participating contracts is such that it prevents us from properly assessing the relevance of these proposals. Pending these clarifications, we re-emphasise our view that unbundling should remain an exception within the ED;
- the requirements to capture in the measurement of participating contracts, the linkage with the cash flows from the related assets should be clarified to ensure their appropriate and consistent application;
- the premium allocation approach should not be mandatory and in any case, should not result in specific presentation requirements in the income statement;
- the risk adjustment should be measured consistently with the business model of the insurer and thus should capture the diversification effects at the level at which the entity effectively mitigates risk;
- we consider that the inclusion of an illiquidity premium in the measurement of insurance liabilities is not appropriate;
- the proposed transition requirements should be reconsidered as the profit of the contracts in force at the date of transition will never be recognised in the income statement. Moreover, the profitability of these contracts will not be consistent with that of the other contracts entered into after the date of transition.

We do not deny that considerable work has been done by the IASB and that the ED includes improvements over the DP on specific topics.

However, as long as the proposed model does not provide an appropriate picture of the performance of insurers and of their business model, we consider that it should not be issued as a standard.

Thus, we urge the IASB to work closely with all its constituents:

- to address the various aspects of the ED mentioned above that are sources of fundamental concerns;
- to investigate the solutions that we propose to reduce the undue volatility in the income statement resulting from this proposed model in the context of a larger debate on performance, including the role of OCI and of recycling with the aim of maintaining the income statement as the central concept for performance reporting;
- to undertake a sufficient and effective field-testing when the new proposals are finalised in order to ensure their robustness, relevance and feasibility and to ensure that they provide decision–useful financial statements that appropriately portray the insurance business model.

More time will be needed to carry out these additional steps, including re-exposure. Due to the importance of this project, we believe that the Board should not focus on a date but rather on meeting the objective of a high quality standard to which it is committed, providing information that is relevant to the decision-making process of users by effectively portraying the performance of insurers and their business model.

Our detailed comments on the questions posed in the ED are set out in the Appendix to this letter.

Kind regards,

Jérôme Haas

APPENDIX

Question 1 – Relevant information for users

Do you think that the proposed measurement model will produce relevant information that will help users of an insurer's financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

We do not deny that considerable work has been done by the IASB and that the ED represents an effective improvement over the DP on specific topics such as, for example, the fulfilment value measurement model, the recognition of a separate residual margin instead of a day-one gain or the treatment of incremental acquisition costs.

However, we do not consider that at this point in time, the proposed measurement model will produce relevant information to help users to make economic decisions for the following reasons:

Necessity to reconsider the proposed model to develop alternative solutions that appropriately address the undue volatility in profit or loss resulting from the proposed model

We consider that the measurement model for insurance contracts proposed in the ED would not portray the performance of insurers. Short-term market volatility would be mechanically reflected in profit or loss because of the current remeasurement of the insurance contracts at each reporting period while, in essence, the insurance business model is based on a medium to long term horizon. As a result, the users will not be provided with decision-useful information to assess the real performance of insurers over time.

In addition, the proposals for the measurement of the insurance contracts have been developed considering a unique perspective that of the measurement of financial assets at fair value through profit or loss. Therefore, the other fundamental characteristic of the insurance business model, that is the asset/liability management and the interactions between the respective measurements of these assets and liabilities, is also not appropriately taken into consideration, resulting in an accounting mismatch.

Therefore, we urge the IASB to develop alternative measurement approaches that would eliminate the undue volatility in profit or loss which does not appropriately reflect the time horizon of insurance activities. Refer to our comments on Question 13 (b).

In this respect, we recommend that the IASB investigates the following solutions for the contracts covered by the ED, coupled with a prospective adjustment of the residual margin for the future changes in the estimates other than those resulting from the discount rate:

- locking in at inception the discount rate used for the insurance liabilities, will the backing assets be measured at amortised cost;
- presenting in OCI, separately from the income statement, the changes in value of the insurance liabilities due to the changes in the discount rate and the changes in the value of the backing financial assets (debt or equity instruments), with recycling through the income statement, should the insurance contracts and these financial assets be measured on a current value basis. This proposal for the measurement of these financial assets is consistent with our comment letter on IFRS 9.

Necessity to reconsider the transition requirements

Refer to our response to Question 17.

Necessity to reassess with the users the nature of information that are to be provided in the notes to financial statements

Refer to our response to Question 14.

Thus, we urge the IASB to work closely with all its constituents:

- to address the various aspects of the ED mentioned above that are sources of fundamental concerns;
- to investigate the solutions that we propose to reduce the undue volatility in the income statement resulting from this proposed model in the context of a larger debate on performance, including the role of OCI and of recycling with the aim of maintaining the income statement as the central concept for performance reporting;
- to undertake a sufficient and effective field-testing when the new proposals are finalised in order to ensure their robustness, relevance and feasibility and to ensure that they provide decision–useful financial statements that appropriately portray the insurance business model.

Further time will be needed to carry out these additional steps, including re-exposure. Due to the importance of this project, we believe that the Board should not focus on a date but rather on meeting the objective of a high quality standard to which it is committed, providing information that is relevant to the decision-making process of users by effectively portraying the performance of insurers and their business model.

Question 2 – Fulfilment cash flows

(a) Do you agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract? Why or why not? If not, what do you recommend and why?

We agree with the proposal in the ED that an insurance contract should be considered as a bundle of rights and obligations and that its measurement should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the contract because this reflects how the insurer generally expects to extinguish the liability e.g by fulfilling the liability through payment of benefits and claims to policyholders as they become due.

(b) Is the draft application guidance in Appendix B on estimates of future cash flows at the right level of detail? Do you have any comments on the guidance?

We consider that the guidance in Appendix B on estimates of future cash flows is at the right level of detail.

Question 3 – Discount rate

(a) Do you agree that the discount rate used by the insurer for non-participating 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 proposal that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability. Concerning our comments on the illiquidity adjustment, please refer to our comments to Question 3 (b).

(a bis) Discount rate for participating contracts

Necessity to clarify the techniques that may be used for measuring participating contracts

We believe that paragraphs 32 and B45-47 of the ED should be clarified as some may interpret their current wording as requiring the use of an asset-backed rate in the measurement of participating insurance contracts. In addition, paragraph BC96 of the ED seems to reinforce this view as it states: "however, the Board rejected asset-based rates because those rates are irrelevant for a decision-useful measurement of the liability, unless [*emphasis added*] the cash flows from the assets affect the cash flows arising from the liability".

However, we understand that the intention of the IASB was only to require in specific circumstances to capture, in the measurement of participating contracts, the linkage that exist with the cash flows arising from the assets (and not through the discount rate). As such, we believe that paragraph 32 of the ED should be removed from the section "time value of money".

In our view, it is essential that the IASB clarifies the proposals for the measurement of these contracts. Otherwise, we believe that it would result in diversity in practice and lack of comparability.

Regarding the techniques that may be used, based on discussions with our constituents, we understand that the following techniques may be appropriate in a consistent market approach for measuring the cash flows of the participating contracts that vary with the asset cash flows:

- a "real world" projection using an asset-backed rate and discounting on a consistent basis;
- a risk neutral projection and discounting at a risk-free rate;
- replicating portfolios.

In our view, these techniques are not contradictory with the staff's paper "discount rate for participating contract" dated November 8, 2010 and published on the IASB website. However, we note that the replicating portfolios technique is not widely used in practice.

We believe it would be useful if the IASB provides examples of the techniques that may be used (beyond that of replicating portfolios) and of the circumstances in which they may be used, but without imposing a limitation to the number of techniques that can be used.

Overall concerns with the lack of clarity of the requirements

We also have the following concerns regarding the discussion of the measurement of participating contracts in the ED:

- it is unclear which category of participating contracts would be subject to this measurement as the meaning of "depends wholly or partly on the performance of specific assets" is not defined; in this respect, paragraph 97 of the Basis for Conclusions indicates that unit-linked and some participating contracts would be covered but without giving further details on these "some" participating contracts;
- paragraph 32 of the ED indicates that "in some circumstances, the most appropriate way to reflect that linkage might be to use a replicating portfolio" but does not provide any additional details on these circumstances;
- the guidance provided on the techniques that can be used is unbalanced: paragraph 97 of the Basis for Conclusions provides prescriptive guidance on replicating portfolios while no details are provided on the other techniques that may be used. As mentioned above, we believe it is necessary that the IASB provides further details on these techniques;
- regarding the replicating portfolio technique, paragraph 97 of the Basis for Conclusions seems to be very prescriptive but in reality lacks precision. As such, it indicates : "A replicating portfolio is a portfolio of assets providing cash flows that exactly match the cash flows from the liability in all scenarios…if a replicating portfolio exists and can be measured directly" but does not explain further what "exactly match the cash flows in all scenarios" and "measured directly" mean;

- paragraphs B46 and B47 of the ED are not consistent. On one hand, paragraph B47 of the ED indicates that judgment is required to determine which approach best meets the objective but without specifying any other requirement. On the other hand, paragraph B46 requires, when another technique than a replicating portfolio technique is used, to assess whether it would lead to a materially different answer which seems to designate the replicating portfolio technique as the "benchmark" technique.

We also note that no fulfilment cash flows and risk adjustment will be separately recognised for the replicated cash flows. However, the ED is silent on how the summarised margin presentation and the disclosure requirements should be applied in such circumstances.

(b) Do you agree with the proposal to consider the effect of liquidity, and with the guidance on liquidity? Why or why not?

The question of whether to include an illiquidity premium has been thoroughly and intensively discussed. Overall, it appears that such orientation would be tantamount to applying a discount to a liability that will never be subject to a transaction, which is highly questionable. Furthermore, this would introduce complexity, uncertainty and all risks associated which must absolutely be avoided. Therefore, we do not consider appropriate to consider the effect of liquidity in the measurement of insurance liabilities.

(c) Some have expressed concerns that the proposed discount rate may misrepresent the economic substance of some long duration insurance contracts. Are those concerns valid? Why or why not? If they are valid, what approach do you suggest and why? For example, should the Board reconsider its conclusion that the present value of the fulfilment cash flows should not reflect the risk of non performance by the insurer?

We do not share in our jurisdiction the concerns expressed by some constituents that the proposed discount rate may lead to misrepresenting the economic substance of some long-duration contracts.

We take the opportunity of this question to welcome the decision of the IASB not to reflect the own credit of the insurer (or more generally the risk of non-performance by the insurer) in the measurement model proposed in the ED. We have always considered that reflecting own credit risk in the measurement model was inconsistent with a measurement of liabilities at fair value. A fortiori, taking into account own credit risk is inconsistent with a fulfillment approach. Thus, we strongly oppose any decision that would lead the IASB to reconsider the exclusion of the risk of non-performance by the insurer in the measurement of insurance contracts.

Question 4 – Risk adjustment versus composite margin

Do you support using a risk adjustment and a residual margin (as the IASB proposes), or do you prefer a single composite margin (as the FASB favours)? Please explain the reason(s) for your view.

We support the recognition of an explicit risk adjustment and a residual margin as proposed by the IASB for the following reasons:

- uncertainty about the amount and timing of future fulfillment cash flows is a fundamental characteristic inherent to insurance contracts. The management of this uncertainty, which is taken into account in the insurer's pricing policy and subsequently followed up, is integral to the insurance business model;

- an initial and subsequent explicit risk adjustment reflects the level of uncertainty separately from the expected profit of the contract (residual margin) both at inception and during the contract term;

- in the absence of an explicit risk adjustment, some may be lead to consider that the economic valuation of insurance contracts equals the fulfillment cash flows, which would be misleading;

- in the absence of an explicit risk adjustment, the loss on onerous insurance contracts would be underestimated as the effect of this uncertainty would not be taken into account when measuring the related loss.

Thus, we consider that an explicit risk adjustment that is subsequently remeasured conveys valuable and decision-useful information to users.

Question 5 – Risk adjustment

(a) Do you agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected? Why or why not? If not, what alternatives do you suggest and why?

We do not object to this proposal.

(b) Techniques for estimating the risk adjustment - Paragraph B73 limits the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation (CTE) and cost of capital techniques. Do you agree that these three techniques should be allowed, and no others? Why or why not? If not, what do you suggest and why?

We do not agree with the proposal to limit the choice of the techniques for estimating risk adjustments for the following reasons:

- limiting the number of techniques conflicts with the objective of a principles-based accounting model. We do not deny that judgment is needed in applying a method for determining the risk adjustments and that these methods are complex. However, these difficulties may probably be no less than those encountered in measuring fair value. We note that in this respect, the ED “Fair value measurement” does not prescribe or limit the techniques to be used to calculate fair value;
- techniques will continue to evolve over time. This may result in one of these three techniques becoming obsolete or in more suitable new techniques emerging. It would therefore necessitate a permanent reassessment of the techniques available to ensure that the best information is provided to users and therefore corresponding amendments to the future insurance accounting standard.

We consider that the entity should use a risk adjustment technique that appropriately reflects the model that the entity uses to manage its risk, provided this technique meets the characteristics set out in paragraph B72 of the ED. The concerns of the IASB about the fact that permitting a wide range of techniques may reduce the relevance of the resulting measurement and comparability can be addressed through adequate disclosures. In this respect, we consider that where the entity uses a technique that is not one of the three techniques currently permitted in the ED, it shall disclose this fact and describe the technique, the assumptions and the inputs used.

(c) Do you agree that if either the CTE or the cost of capital method is used, the insurer should disclose the confidence level to which the risk adjustment corresponds (see paragraph 90(b)(i))? Why or why not?

We disagree with the proposal that insurers should disclose the confidence level to which the risk adjustment corresponds if either the CTE or the cost of capital method is used for the following reasons:

- paragraph B95 of the ED acknowledges that the confidence level technique is not appropriate for distributions that are highly skewed. As such, it would be inconsistent to define it as the “benchmark” disclosure for the risk adjustment which implies per se that it is the most appropriate technique;
- this requirement would be costly for entities that use other techniques without leading to more comparability as insurers may use different confidence levels.

(d) Do you agree that an insurer should measure the risk adjustment at a portfolio level of aggregation (i.e. a group of contracts that are subject to similar risks and managed together as a pool)? Why or why not? If not, what alternative do you recommend and why?

We consider that risks margin should be measured consistently with the way the insurer mitigates its risk. In this respect, diversification is part of the risk management policy of an insurer and a reality of the insurer's activity.

Thus, ignoring those diversification effects would not be consistent with the insurer's business model and would deprive users of decision-useful information about the effective risk mitigation policy of the insurer.

Therefore, we believe that the measurement of the risk margin, at the portfolio level, should capture the diversification effects at the level at which the entity mitigates risk, which may be up to the reporting entity level.

We consider that appropriate disclosure would help to alleviate the concerns that capturing these diversification effects is challenging as it requires practical and reliable measurement techniques. In this respect, we recommend robust disclosures illustrating the level at which the effective management of risks is made by the entity, describing the technique and the assumptions used in the measurement of these diversification effects and providing the amount of the diversification effect.

(e) Is the application guidance in Appendix B on risk adjustments at the right level of detail? Do you have any comments on the guidance?

We believe that the application guidance in Appendix B on risk adjustments is at the right level of detail in the context of the proposals made in the ED but would need to be reviewed in the light of our above comments.

Question 6 – Residual/composite margin

(a) Do you agree that an insurer should not recognise any gain at initial recognition of an insurance contract (such a gain arises when the expected present value of the future cash outflows plus the risk adjustment is less than the expected present value of the future cash inflows)? Why or why not?

We welcome the proposal that an insurer should not recognise any gain at initial recognition of an insurance contract. This view appropriately depicts that insurance contracts represent a service over a long period and that their net profit should therefore not be recognised at their initial recognition as long as the corresponding service has not been rendered. This is consistent with both the current IFRS revenue recognition model and the ED "Revenue from Contracts with Customers".

Concerning our comment on the subsequent measurement of the initial residual margin, refer to our response to Question 5 (d).

(b) Do you agree that the residual margin should not be less than zero, so that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss (such a loss arises when the expected present value of the future cash outflows plus the risk adjustment is more than the expected present value of future cash inflows)? Why or why not?

We agree with the proposal that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss.

(c) Do you agree that an insurer should estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period? Why or why not? If not, what do you recommend and why?

We believe that this proposal should be reconsidered and field tested in the light of our proposals set out in Question 6 (d) to prospectively adjust the residual margin for future changes in estimates and to release this adjusted residual margin over both the coverage and claims handling periods.

However, we note that the proposed level of measurement for the residual margin is lower than the proposed level of measurement for the risk margin, which may result in some practical difficulties in the context of the building blocks approach. In our view, other difficulties may arise when operationalising the notion of “similar inception date” and “similar coverage period”.

As discussed in our response to Question 4, we do not support the composite margin approach. We would therefore not comment on its proposal.

(d) Do you agree with the proposed method(s) of releasing the residual margin? Why or why not? If not, what do you suggest and why (see paragraphs 50 and BC125–BC129)?

The residual margin should be prospectively adjusted so as to continue to reflect subsequently the expected profit of the contract at the reporting date

As discussed in Question 6 (a), we agree with the recognition of the residual margin. We also agree with its initial measurement as the initial expected profit of the contract (subject to our other comments).

However, we do not agree with the proposal regarding the subsequent measurement of the residual margin for the following reasons:

- the absence of remeasurement of the residual margin is inconsistent with the current remeasurement of the present value of the fulfilment cash flows;
- the proposal would result in an arbitrary representation of the profit and performance of the contracts as the initial residual margin will continue to be released in the income statement over time even when an adverse change in the initial estimates has led to its reduction;
- the proposal to recognize in the income statement all changes in estimates, both relating to the past and the future, would not provide any more useful information about the expected profitability of these contracts after inception.

Thus, we believe that the IASB should reconsider its proposal and develop a subsequent measurement model in which the residual margin is prospectively adjusted for the changes in future estimates or risk adjustment so as to continue to reflect the expected profit of the contract at the reporting date (this “adjusted residual margin” being not less than zero) and thus as from the initial recognition of the contract (for further details, refer to our response to Question 18).

In the context of an alternative measurement approach based on a locked discount rate at inception, this prospectively adjusted margin would be adjusted for all other changes in estimates or risk adjustment.

We are convinced that the concern that such an approach may result in less transparent and less prompt information about the effects of the changes in estimates may be alleviated by adequate disclosure, for example, through providing an opening/closing reconciliation of the changes in the residual margin by nature (changes in cash flows estimates, changes in the risk adjustment, release to the income statement…).

This prospectively adjusted residual margin should be released over the coverage period and claims handling period

We do not agree with the proposal that the residual margin should be released over the coverage period for the following reasons:

- the insurer is providing services to the policyholder over both the coverage and claims handling periods, especially for non-life;
- the fulfillment cash flows and the risk adjustment are remeasured over the coverage period and claims handling period.

Therefore, we consider that the prospectively "adjusted" residual margin, as described in our previous comment, should be released over both the coverage and claims handling periods.

We are not convinced that the two recognition methods for the residual margin provided in paragraph 50 of the ED will result in useful information in all circumstances as they do not capture all the situations. For example, we note that for deferred annuities, despite the fact that the insurer is already providing services before the payment of the annuities, no residual margin will be recognised during this period.

Thus, we consider that the ED should be more principles-based in this area and should:

- explain that the principle to be applied by the insurer is to select the driver that results in the release of the residual margin that best depicts its performance over the life of the contract;
- specify that the two methods proposed in paragraph 50 of the ED are only examples and thus are not exclusive;
- request specific disclosure where the entity applies another method (description of the method and reasons for which the entity considers that this method best depicts the insurer's performance).

(e) Do you agree with the proposed method(s) of releasing the composite margin, if the Board were to adopt the approach that includes such a margin (see the Appendix to the Basis for Conclusions)? Why or why not?

As discussed in our response to Question 4, we do not support the composite margin approach. We therefore do not comment on this question.

(f) Do you agree that interest should be accreted on the residual margin (see paragraphs 51 and BC131–BC133)? Why or why not? Would you reach the same conclusion for the composite margin? Why or why not?

We agree conceptually with the proposal to accrete interest on the residual margin on the basis of the discount rate determined at inception for the reasons stated in paragraphs 131-133 of the Basis for Conclusions. However, we question the usefulness and the benefits of this information for users compared to the complexity of the proposal and its costs for preparers. We therefore recommend to the IASB to reassess the costs/benefits of this proposal.

Question 7 – Acquisition costs

(a) Do you agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not? If not, what do you recommend and why?

We agree with the proposal that the incremental costs for contracts issued should be included in the initial measurement of the insurance contracts as contract cash outflows. This proposal is consistent with the proposed fulfillment measurement.

However, as discussed in our response to Question 2 (b), we consider that these incremental acquisition costs should be determined at the portfolio level, consistently with the level of measurement of the other cash flows used to determine the fulfillment value.

Question 8 – Premium allocation approach

(a) Should the Board (i) require, (ii) permit but not require, or (iii) not introduce a modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts? Why or why not?

We understand that the IASB has developed the premium allocation approach as a proxy of the present value of the fulfillment cash flows and the residual margin of preclaims liabilities for short-duration contracts.

Therefore, being a proxy, it should result in a measurement and information that would be similar to that obtained for the other insurance contracts both in the statement of financial position and in the income statement.

However, at the same time, the requirements set out in the ED for the presentation of these contracts in the income statement is fundamentally different from that of the other insurance contracts.

In this respect, we believe that:

- requiring the mandatory application of a proxy is inconsistent with the notion of proxy itself; we even question the rationale for stating a proxy in an accounting standard;
- requiring a specific presentation in the income statement for these contracts contradicts the notion of proxy itself,
- the requirements to perform an onerous test, based on the general measurement model, and to accrete interest would not result in any effective simplification for users

Thus, we consider that the premium allocation method should be permitted but not required. In any case, we consider that the premium allocation method should not result in any specific presentation requirements in the income statement for the related contracts.

(b) Do you agree with the proposed criteria for requiring that approach and with how to apply that approach? Why or why not? If not, what do you suggest and why?

We do not have any specific comment regarding the proposed criteria.

Question 9 – Contract boundary

Do you agree with the proposed boundary principle and do you think insurers would be able to apply it consistently in practice? Why or why not? If not, what would you recommend and why?

As regards the question of "group contracts", given notably that they were not specifically addressed in the ED, we lack at this stage sufficient elements of appreciation to definitively assess under which conditions and to what extent the "boundary principle" could be applied.

Question 10 – Participating features

(a) Do you agree that the measurement of insurance contracts should include participating benefits on an expected present value basis? Why or why not? If not, what do you recommend and why?

We support the proposals:

- to include cash flows resulting from participating features in the measurement of participating insurance and investment contracts in the same manner as any other contractual or constructive cash flows of these contracts;
- to measure these cash flows on an expected present value basis consistently with the fulfillment approach for the measurement of the other cash flows of these contracts.

(b) Should financial instruments with discretionary participation features be within the scope of the IFRS on insurance contracts, or within the scope of the IASB's financial instruments standards? Why?

We believe that it is critical that all participating contracts, whether classified as insurance or investment, should be accounted for consistently as they share many of the same features. Moreover, as of today, the ED "Insurance contracts" is the only source of comprehensive and sound guidance for the accounting treatment of the discretionary participation feature.

Therefore, we support the proposal to include financial instruments with discretionary participation features within the scope of this ED.

(c) Do you agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity? Why or why not? If not, what do you recommend and why?

We understand that this new condition, to require participating investment contracts to participate in the same "pool" of performance as participating insurance contracts, has been added in order to prevent entities to inappropriately scope investment participating contracts into the ED s. However, some noted that this proposal may continue to permit to influence the accounting measurement of participating investment contracts as it might be possible for example, to issue a few insurance participating contracts within the same portfolio of assets to meet the requirement of sharing in the same pool of performance as participating insurance contracts. Conversely, others noted that this requirement may also give opportunities to entities that issue both categories of contracts to scope out investment participating contracts from the ED by structuring different pools of assets for the two categories of contracts. In addition, it is clear that the lack of guidance on the extent to which contracts should "share the same performance…" prevents as of today a consistent application of this requirement.

Therefore, we are not convinced by the merit of this definition. More generally, we consider that so called "anti-abuse" clauses, being rules-based, are in contradiction with principles-based standards. Last but not least, anti-abuse clauses do generally not prevent entities aiming at a particular objective to achieve it at more or less short-term.

Thus, we consider that the existing definition of discretionary features of IFRS 4 should be maintained.

Nevertheless, if the IASB remains convinced of the necessity to add a criterion to scope only some categories of investment participating contracts into this ED, we suggest to explore the possibility to scope them in based on the condition that an event linked to the life of the policyholder (such as death or disability…) leads to early termination of the contract prior to the term of the investment. While we do not deny that the insurance risk of these contracts is not significant, we consider that such a criterion would have at least the merit to link them back to insurance contracts features and to link then to the ED "Insurance contracts" that is the only source of comprehensive and sound guidance for the accounting treatment of the discretionary participation feature.

(d) Paragraphs 64 and 65 modify some measurement proposals to make them suitable for financial instruments with discretionary participation features. Do you agree with those modifications? Why or why not? If not, what would you propose and why? Are any other modifications needed for these contracts?

We have concerns about both the proposals regarding the boundary and the pattern of release of the residual margin of financial instruments that contain discretionary participation features.

Boundary - Future premiums

We understand that, based on the proposed definition of the boundary of investment participating contracts, all voluntary future premiums, without limit, may be part of the measurement of these contracts. This would not only necessitate complex estimations but may also result in significant volatility in the income statement due to the reassessment of these estimations.

In addition, it is unclear how the requirement of paragraph 64 of the ED applies for some participating contracts for which the discretionary participation may be paid to future generation of policyholders (mutualisation between generations of contracts): should the premiums of these future contracts also be considered in the measurement of the existing participating contracts?

We consider that the IASB should include only the voluntary premiums that the policyholder has agreed to pay at the inception of the contract to the extent that they provide a significant advantage to the current policyholder compared to a new policyholder and their level is predictable. If the policyholder has the ability to subsequently modify the level of these agreed initial premiums, this modification would be taken into account when enacted by the policyholder.

Release of the residual margin

We agree that the release of the residual margin should be recognised in a systematic way that best reflects the asset management services.

However, we do not agree that it should be based on the fair value of assets under management, if that pattern differs significantly from the passage of time This decision presumes a measurement of the assets under management at fair value and as such, would provide inappropriate information about the performance of the contract when the performance of the contract results from a measurement of the related assets on a different basis. Therefore, we recommend to the IASB to amend this definition by removing the word "fair".

Question 11 – Definition and scope

(a) Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

The ED adds two new conditions to the existing IFRS 4 definition of an insurance contract. In this respect, we note that the condition of a "loss" scenario (a scenario that has a commercial substance in which the present value of the net cash outflows paid by the insurer can exceed the present value of the premiums) may result in some reinsurance agreements no longer meeting the definition of an insurance contract. Therefore, we recommend that the IASB addresses this unintended consequence.

In addition, we believe that a grandfathering clause should be requested for these two proposed changes so as to relieve entities from the burden of reviewing, at the date of transition, all their insurance contracts to assess if they meet the proposed definition. In our view, the costs of such a review largely overweigh its potential benefits.

(b) Do you agree with the scope exclusions in paragraph 4? Why or why not? If not, what do you propose and why?

We agree with the scope exclusions discussed in paragraph 4 of the ED.

(c) Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

We note that the current IFRS 4 requirements for financial guarantees work well in practice and are well understood. Therefore, we recommend that the IASB continue to provide entities with this accounting policy choice to account for financial guarantee contracts in compliance with the business model of the entity.

Should the IASB pursue with its decision to review the existing accounting requirements in this area, we recommend the IASB to explore the following alternative so as to appropriately reflect in the accounting treatment the economics of these contracts and the business model of their issuers:

- trade credit insurance contracts issued by entities that cover the policyholder against a risk of default to pay of a customer of this policyholder, should be brought into the scope of this ED consistently with the business model of the entity;
- financial guarantees contracts issued by entities, such as those commonly issued by banks on request of their customers (for example, performance bonds or guarantees in favour of tax authorities) that cover third parties against a risk of default to pay of the customers of the entity, should be accounted for under IAS 39/IFRS 9 using an expected loss accounting model consistently with the business model of the entity.

Question 12 – Unbundling

Do you think it is appropriate to unbundle some components of an insurance contract? Do you agree with the proposed criteria for when this is required? Why or why not? If not, what alternative do you recommend and why?

Unbundling should remain an exception for <u>all the contracts</u> within the scope of the ED

We agree with the views expressed in paragraph 35 of the Basis for Conclusions that “other reasons why the Board rejected the idea of simply bringing insurance contracts within the scope of generic standards are the difficulty, and possible arbitrariness, of identifying which deposits and which embedded derivatives should be accounted for separately and the complexity and lack of usefulness of applying different approaches to different components of complex contracts”.

Therefore, we consider that unbundling should remain an exception for all the contracts within the scope of this ED and should be only required when it provides better information to users. As such, we recommend that the IASB clearly demonstrates the benefits for users in terms of information versus the costs for preparers of these proposals.

Unbundling requirements should be clarified so as to enable constituents to properly assess them

As explained below, the unbundling requirements set out in the ED are so confusing that at this point in time, we are not in a position to properly assess their relevance. We therefore urge the IASB to re-consider these proposals, their objective or how they should be applied. However, we re-emphasise that we consider that unbundling should remain an exception within this ED.

- *The application of the "closely related" notion to components other than embedded derivatives should be clarified*

Paragraph 8 of the ED states that "a component shall be unbundled if it is not closely related to the insurance coverage". The term "closely related" is currently used in IFRS in the context of financial instruments accounting for embedded derivatives. Therefore, we consider that the circumstances in which it should be used for other components and particularly in the context of components closely related to an insurance coverage should be clarified and field-tested.

Therefore, at this point in time, the requirement to unbundle in other circumstances than in the three examples given in paragraph 8 of the ED remains unclear.

- *It is unclear whether current unbundling proposals apply to investment participating contracts.*

Paragraph 8 of the ED states that unbundling is required when a component is not closely related to the insurance coverage. Hence, as investment participating contracts do not contain significant insurance risk, some argue that these contracts should not be unbundled. However, unbundling is not mentioned in paragraphs 64 or 65 of the ED as one of the requirements that does not apply to investment participating contracts.

In addition, we are concerned that the requirements set out in paragraph 8(a) of the ED, even if particularly unclear, may be considered to apply to some investment participating contracts. However, this would result in practice in scoping out their measurement from this ED which seems inconsistent with the overall objective of the ED. We therefore recommend to the IASB to clarify its intents with regard to this proposal.

- *The example set out in ED.8 (a) should be clarified*

Some argue that the example given in paragraph 8(a) of the ED is only aimed at requiring the unbundling of some well-specified categories of contracts such as US universal life contracts, unit and index linked contracts.

We understand that this requirement has been merely "imported" from US GAAP without further considering how it applies in the context of the ED. We also note that most of the terms used in this paragraph are not defined, as for example account balance, explicit return, investment performance…..Moreover, it is also unclear whether the contracts that do not meet these requirements, such as contracts that all pass on only part of the performance, should be unbundled or not.

Therefore, we recommend to the IASB to clarify how these requirements may be applied in practice and to which contracts they should be applied.

Question 13 – Presentation

(a) Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?

We support the proposal to apply a summarised margin presentation in the income statement. This presentation is consistent with the proposed measurement model in the statement of financial position and as such provides users with useful information.

However, as discussed in our comment to Question 8, we consider that the summarised margin presentation should apply to all insurance contracts, including those measured under the premium allocation method. Therefore, we do not agree with the requirements set out in paragraph 75 of the ED for these contracts.

Nevetheless, we agree with the IASB that the information about premiums, claims and expenses may be useful to users of financial statements and that it should therefore be included in the notes. In this respect, we recommend that the IASB reassesses comprehensively the information provided, both in the income statement or in the notes in the light of the users' needs so as to ensure that all the relevant information is provided, particularly for non-life business (such as volume information or information needed for the determination of the key performance indicators and performance metrics).

(b) Do agree that an insurer should present all income and expense arising from insurance contracts in profit or loss? Why or why not? If not, what do you recommend and why?

We do not agree with the proposal to present all income and expense arising from insurance contracts in the income statement as:

- short-term market volatility will be mechanically reflected in the income statement while, in essence, the insurance business model is based on a medium to long term horizon; as a result, users will not be provided with decision-useful information to assess the real performance of insurers over time;
- the proposal to determine the residual margin at inception and to not adjust it subsequently while all the changes in the present fulfilment value cash flows are recognised in the income statement is not appropriate. For further details, refer to our response to Question 6.

In this respect, we recommend that the IASB considers the two following alternative solutions:

- locking in at inception the discount rate and adjusting the residual margin for the effects of the future changes in the other estimates, will the backing assets be measured at amortised cost;
- presenting in OCI, separately from the income statement, the changes in the value of the liabilities and of the changes in the value of their backing assets, with recycling through profit and loss, should these liabilities and these financial assets be measured on a current value basis.

Question 14 – Disclosures

(a) Do you agree with the proposed disclosure principle? Why or why not? If not, what would you recommend, and why?

(b) Do you think the proposed disclosure requirements will meet the proposed objective? Why or why not?

(c) Are there any disclosures that have not been proposed that would be useful (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful.

General comment

We are concerned that there is a general current disclosure overload within IFRS. This overload of information is not only burdensome and costly for entities but also obscures sometimes key information for users. We thus urge the IASB to complete the Disclosure Phase of its Framework project as soon as possible to enable entities to move from a compliance exercise toward a real principles-based disclosure framework focused on key information for users.

Necessity to reassess and field-test the level of disclosures required with users

We do not disagree with the overall disclosure principle set out in paragraph 91 of the ED. However, we are concerned by the high volume of disclosures required in the ED. We recommend therefore to the IASB to reassess with users through detailed field testing the effective need for these disclosures. Refer also to our comments in Question 14.

Question 15 - Unit-linked contracts

Do you agree with the proposals on unit-linked contracts? Why or why not? If not what do you recommend and why?

Concerning the proposals on unit-linked contracts,

- we note that paragraph 71 of the ED requires presenting as single line items the assets and the liabilities of unit-linked contracts. We consider that this requirement should be extended to the unit linked contracts accounted for under IAS 39/IFRS 9 in order to increase the comparability of the information provided;
- we agree with the proposals made by the ED to address the accounting mismatches that arose from the existing measurement of the insurer’s own shares and property occupied by the insurer.

However, we consider that the IASB should also address the accounting mismatches that arise when the portfolio of assets associated with the unit-linked contracts include investments in associates or own debt instruments.

Question 16 – Reinsurance contracts

(a) Do you support an expected loss model for reinsurance assets? Why or why not? If not, what do you recommend and why?

We support the proposal to apply an expected loss model for reinsurance assets.

(b) Do you have any other comments on the reinsurance proposals?

We have the following concerns:

- the ED requires the cedant to measure reinsurance assets based on the fulfillment cash flow approach. We understand that this requirement also applies where the cedant applies the premium allocation approach to the ceded contracts. We recommend that the Board clarifies how these requirements reconcile;
- it is also unclear how the notion of short duration contracts applies in the context of reinsurance contracts. For example, some reinsurance contracts cover 12-month primary contracts but may provide effective coverage during a 24-month period. Should such reinsurance contracts nevertheless considered as short-term duration contracts?
- the proposals made in the ED would result in particular complexity for reinsurance agreements that cover contracts not yet written or recognised by the ceding entity.

Regarding our concern about the “loss” scenario condition introduced in the definition of insurance contracts in the context of reinsurance contracts, refer to our comments to Question 11 (a).

Question 17 – Transition

(a) Do you agree with the proposed transition requirements? Why or why not? If not, what would you recommend and why?

Determination of residual margin at the date of transition

We strongly disagree with the proposal to not calculate any residual margin for the existing insurance contracts at the date of transition.

The proposal to measure the existing contracts at the date of transition by setting the residual margin at zero results in inappropriate information for users as:

- the profitability of the contracts in force at the date of transition will be recognised directly in retained earnings and thus will never been recognised in the income statement as it emerges;
- this approach will result in inappropriate future trend/comparative information about the performance of existing and future contracts after the date of transition.

Therefore, we consider that a full retrospective approach portfolio by portfolio in line with IAS 8 requirements should be required, unless impracticable. If impracticable, in our view, entities should be required to apply the IASB’s staff proposal set out in paragraph 249 of the Basis for Conclusions and to determine the “residual” margin at the date of transition as the difference (but not less than zero) between the carrying amount of the insurance liability before transition and the present value of the fulfillment cash flows at this date.

In our view, the concerns about comparability expressed by the IASB in the same paragraph of the Basis of Conclusions would be appropriately addressed by disclosing in the notes separate appropriate information on the resulting “residual” margin until its complete release.

Reclassification of financial assets

We disagree with the proposal to permit only to redesignate financial assets as measured at fair value through the income statement. This proposals emphasises again the premise of the Board that accounting mismatches can be addressed only through the measurement of financial assets at fair value through the income statement (refer to paragraph 253 of the Basis of Conclusions [1]).

Thus, we consider that entities should also be permitted to redesignate financial assets as measured at amortised cost, consistently with the possibility that should be given to insurers to measure their assets and liability on a consistent basis.

Changes to the definition of an insurance contract

Refer to our comments in Question 11 (a) concerning the inclusion of a grandfathering clause for the two changes proposed to IFRS 4 definition of an insurance contract.

(b) If the Board were to adopt the composite margin approach favoured by the FASB, would you agree with the FASB's tentative decision on transition (see the appendix to the Basis for Conclusions)?

As discussed in our answer to Question 4, we do not support the composite margin approach favoured by the FASB.

(c) Is it necessary for the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9? Why or why not?

We support the alignment of the effective date of the future IFRS on the insurance standard and of IFRS 9 as it is necessary for entities to comprehensively take into consideration the measurements of their financial assets and of their insurance contracts. In this respect, entities may need to modify their classification of assets under IFRS 9 and as such, would benefit from not having to do it twice (once in the context of IFRS 4 and then again in the context of the future accounting standard on insurance contracts).

(d) Please provide an estimate of how long insurers would require to adopt the proposed requirements.

The proposals set out in the ED will be complex to implement and thus challenging. As such, we consider that a three-year period of time after the publication of the final insurance standard should be given to preparers to ensure that they are in a position to implement them appropriately.

Question 18 – Other comments

Initial recognition of insurance contracts

Concerning the initial recognition of insurance contracts, we have the following concerns:

- we consider that the definition of a contract should be clarified and more particularly that a contract exists only if the parties to the contract have approved the contract and that the parties are committed to satisfying their respective obligations. The current proposal set out in paragraph 14 (a) may lead to consider that a unilateral offer from the insurer leads to recognising an insurance contract which is in our view inappropriate as the two parties should be committed for a contract to exist;

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[1] ED.BC253 (extract) "because the draft IFRS would measure insurance liabilities at current value with all remeasurements recognised in profit or loss, accounting mismatches would arise if an insurer continues to measure its financial assets at amortised cost"

- we would re-emphasise that, consistently with our views expressed in Question 6, we consider that the changes in estimates or risk adjustment between the initial date of recognition and the start of the coverage period should be recognised as an adjustment to the residual margin.

Accounting of loans granted to policyholders

We note that the ED does not include any discussion on the accounting treatment of the loans granted to policyholders. We recommend to the IASB to clarify this topic.

Switch between contracts

We recommend that the IASB considers the practical difficulties for the accounting of contracts that permit policyholders to switch between contracts recognised initially in different standards (for example from IAS 39/IFRS 9 to the ED) or from one category included in the scope of the ED to another (for example between participating, non-participating and unit-linked funds) (sometimes called "multi-support" funds).

Modifications of the terms and conditions of contracts

We note that the ED does not include any discussion on the accounting treatment of modifications of the terms and conditions of contracts and of the circumstances in which they are deemed to result in a new contract. We recommend to the IASB to clarify this topic.

Question 19 – Costs and benefits

When appropriate, our comments on the issues of costs and benefits have been made in our responses to the previous questions. Please refer to our comments to Question 1 regarding the relevance of information provided by the model and to our comments to Question 17 concerning the necessity of sufficient time for insurers to implement the proposed changes.