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Ref no; 5/337

Sir David Tweedie
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Dear Sir David:

Thank you for the opportunity to comment on the Exposure Draft of the International Accounting Standards Board Improvements Project. On behalf of the International Association of Insurance Supervisors (IAIS), I am pleased to provide you with comments on the International Accounting Standards in response to your Invitation to Comment The comments provided are driven from the current standards. As revisions to the current standards occur, the JAIS may revisit the issues and obtain a different position**.**

The reviewed the following standards for comments:

IAS 1 - Presentation of Financial Statements
IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors
IAS 21 - The Effects of Changes in Foreign Exchange Rates
IAS 24 - Related Party Disclosure s
IAS 21 - Consolidated and Separate Financial Statements IAS 40— Investment Properly

The IAIS did not review the following standards:

- IAS 2 - Inventories
- IAS 10 - Events After the Balance Sheet Date
- IAS 15 - Information Reflecting the Effect of Changing Prices
- IAS 16 - Property, Plant and Equipment
- IAS 17 - Leases
- IAS 28 - Accounting for Investments in Associates
- IAS 33 - Earnings Per Share

The IAIS determined that the proposed changes for these standards were minimal, not applicable, or will be considered for comment at a later time.

IAS 1— Presentation of Financial Statements:

Question 1: Do you agree with the proposed approach regarding departure from a requirement of an international Financial Reporting Standard or an interpretation of an International Financial Reporting Standard to achieve a fair presentation (proposed paragraphs 13-16)?

IAIS Response: The IAIS agrees with the proposed changes to IAS 1 allow departures from an International Accounting Standard or an Interpretation of a standard if it would enable the fair presentation of financial statements. To clarify the guidelines for when a regulatory framework requires, does not prohibit, or otherwise prohibits a departure from the standard or interpretation, the TAIS recommends that guidance included within appendix A, paragraph 8 be included within. IAS 1.

Question 2: *Do you agree with prohibiting the presentation of items of income and expense as extra-extraordinary items ' in the income statement and the notes (see proposed paragraphs 78 and 79)?*

IAIS Response: The IAIS disagrees with the recommendation to exclude the presentation of extraordinary items of income and expense on the face of the income statement or in the notes. The presentation of this information is necessary to inform the users of the financial statements on the current transactions and events impacting the company. This information is considered invaluable for users to evaluate the future financial performance and determining the company's future ability to meet present obligations. including the results of extraordinary items within other items in the financial statements will be misleading to the users, as the financial statements will no longer be indicative of actual past performance and will be flawed for future forecasts. The IAIS may revisit this topic in accordance with the IASB Performance Reporting Project that is currently being considered.

Question 3: *Do you agree that a long term financial liability due to be settled within twelve months of the balance sheet date should be classified as a current liability, even if agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorized for issue (see proposed paragraph 60)?*

IAIS Response: The IAIS notes that in accordance with paragraph 52, financial institutions are able to provide more relevant and reliable information by using a liquidity presentation of assets and liabilities rather than the current/non-current presentation The IAIS agrees with this statement as insurance companies are considered to be financial institutions and utilize this approach.

Question 1 Do you agree that:

(a) A long-term financial liability that is payable on demand because the entity breached a condition of its loan agreement should he classified as current at the balance sheet date, even if the lender has agreed after the balance sheet date, and before the financial statements are authorized for issue, not to demand payment as a consequence of the breach (see proposed paragraph 62)?

(b) if a lender was entitled to demand immediate repayment of a loan because the entity breached a condition of its loan agreement but agreed by the balance sheet date to provide a period of grace within which the entity can rec4fy the breach and during that time The lender cannot demand immediate repayment, Me liability is classified as non-current if it is due for settlement, without that breach of the loan agreement at least twelve months after the balance sheet date and:

(I) The entity rectifies the breach within the period of grace; or

(ii) When the financial statements are authorized for issue, the period of race is incomplete and it is probable that the breach will be rectified (see proposed paragraphs 63 and 64.)

IAIS Response: Please refer to Question 3 for the IAIS response with regards to this issue.

Question 5: Do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have t4e most significant effect on the amounts of items recognized in the financial statements (see proposed paragraphs 108 and 109)?

IAIS Response: The IAIS agrees with the concept that accounting principles and assumptions made by management, which cause a significant impact on the financials are key elements in the fair presentation of financial statements and should be disclosed. However, the IAIS recommends that the suggested standard be phrased as fellows:

> "An entity shall disclose, in the summary of significant accounting policies and/or other notes, the judgements made by management in applying the accounting policies that have a material significant effect on the amounts of items recognized in the financial statements?

The IAIS also noted that the required disclosures should reflect the company's underlying reason for the judgements or assumptions, but should not require the company to publish strategic information on the company's operations to the company's competitors. For insurance companies examples include expected mortality rates, expected earnings on assets, or expected losses on group accident and sickness policies. it is anticipated that the disclosure requirements for insurance companies will be detailed in IAS 30.

Question 6: *Do you agree that an entity should disclose key assumptions about the future; and other sources of measurement uncertainty, that have a significant risk of causing material misstatement adjustment to the carrying amounts of' assets and liabilities within the next financial year (see proposed paragraphs 110-115)?*

IAIS Response: The IAIS agrees with the standard that requires key disclosures on assumptions that have a significant risk of causing material misstatement. The IAIS was ambivalent on where exactly these disclosures should be required the existing international standards vary with including these in a separate Management's Discussion and Analysis (MD&A) aside from the financial statements, or within the financial statements themselves.

IAS 8 - Accounting Policies Changes in Accounting Estimates and Errors

Question 1 *Do you agree that the allowed alternative treatment should be eliminated for voluntary changes in accounting policies and corrections of errors, meaning that those changes and corrections should be accounted for retrospectively as if the new accounting policy had always been in use or the error had never occurred (see paragraphs 20 21 32, and 33)?*

IAIS Response: The IAIS agrees with the proposed revisions noting that paragraphs 5 and 6 of the proposed new IAS 8 defines the hierarchy of IASB pronouncements and authoritative non-mandatory guidance that should be considered when selecting accounting policies to apply in the preparation of financial statements. Due to tile current consideration by the IASB of insurance contracts, further deliberation should occur on the impact of changes arising from the proposed insurance contract standards and whether special exclusions should be permitted for entities affected by insurance contracts.

Question 2: *Do you agree with eliminating the distinction between fundamental errors and other material errors (see paragraphs 32 and 33)?*

IAIS Response: The IAIS agrees with the above comment

IAS 21 -The Effects of changes in Foreign Exchange Rates

Question 1: *Do you agree with the proposed definition of functional currency as "the currency of the primary economic environment in which the entity operates" and the guidance proposed in paragraphs 7-12 on how to determine what is an entity's functional currency?*

IAIS Response: The IAIS agrees that the definition of a reporting entity's functional currency is the currency of the primary economic environment in which the reporting entity operates. However, for foreign entities in which the activities of the foreign operation are carried out as an extension of the reporting entity, the foreign currency transactions shall be reported in the functional currency of the reporting entity. This disagrees with paragraph 10 of IAS 16, which indicates that management may use judgement in determining the functional currency in these circumstances.

Question 2: *Do you agree that a reporting entity (whether a group or stand-alone entity) should be permitted to present its financial statements in a4 currency (or currencies) that it chooses?*

The IAIS disagrees with the suggestion that a reporting entity should be permitted to present its financial statements in any currency of their choice. One of the objectives of the improvements project is to reduce or eliminate alternatives to enhance comparability and to avoid accounting arbitrage. As such, it would be more appropriate to require chat an entity present its financial statements in its functional currency, local currency, or in accordance with the currency of the foreign company's reporting entity. Additionally, providing the option to choose the presentation currency may unnecessarily confuse users of the financial statements.

Although we do agree with the statement "the functional currency, being the currency of the primary economic environment in which the entity operates, most usefully portrays the economic effect of transactions and events on the entity", for reporting purposes, foreign companies utilizing a functional or local currency should be required to translate The financial statements into the same currency of the reporting entity.

Question 3: *Do you agree that all entities translate their financial statements into the presentation currency (or currencies) using the same method as is required for translating a foreign operation for inclusion in the reporting entity's financial statements (see paragraphs 37 and 40)?*

IAIS Response: The IAIS agrees with the guidance in IAS 21, paragraph 37, however, it is noted that applying the various exchange rates for numerous income and expense items recognized in the period is generally impractical. The IAIS recommends that the guidance indicate that an appropriately weighted average exchange rate for the period may be used to translate these items.

The IAIS agrees with the guidance in paragraph IAS 16, paragraph 40, noting that a currency in a highly inflationary environment is not considered stable enough to serve as a functional currency and the more stable currency of the parent company shall be used.

Question 4*: Do you agree that the allowed alternative to capitalize certain exchange differences in paragraph 21 of IAS 21 should be removed?*

IAIS Response: The IAIS has no comment on this question.

Question 5: *Do you agree that (a) goodwill and (b) fair value adjustments to assets and liabilities that arise on the acquisition of the foreign operation should be treated as assets and liabilities of the foreign operation and translated at the closing rate (see paragraph 45)?*

IAIS Response: The IAIS agrees with this statement, however, the IAIS suggests that language be added to illustrate that consideration should be given to limitations implied by other accounting standards.

IAS 24— Related Party Disclosures

Question 1: *Do you agree that the standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?*

The IAIS agrees that the IAS should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations. The IAIS indicated that a requirement to disclose such expensed should be provided from the Securities Exchange Commission or IOSCO.

Question 2: *Do you agree that the standard should not require disclosure of related party transactions and outstanding balances in the separate financial statement of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which the entity belongs (see paragraph 3)*

The IAIS disagrees with the proposal to not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which the entity belongs. The IAIS considers these disclosures to be essential in understanding the financial position and the performance reporting of such an entity, and it will not always be possible or efficient for an investor to obtain the consolidated financial statements of the group or to extract the needed information from these statements. Also, it is very likely that material transactions between a parent or a wholly-owned subsidiary and related parties outside the group will be immaterial to the group. Additionally, there are numerous situations in which the holding corporation may not be a regulated entity where the subsidiary is a regulated entity, and the regulator will need the information on related party transactions. The IAIS supports the alternative view of the IASB noted in Appendix B of IAS 24.

IAS 27 Consolidated and Separate Financial Statements

Question 1: *Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?*

IAIS Response: The IAIS agrees with this comment.

Question *2: Do you agree that minority interests should be presented in the consolidated balance sheet within equity separately from the parent shareholders equity see paragraph 26)?*

IAIS Response: The IAIS agrees with this comment.

Question 3: *Do you agree that investments in subsidiaries, jointly controlled entities and associates that are consolidated, proportionately consolidated or accounted for under the equity method in the consolidated financial statements should be either carried at cost or accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement, in the investor's separate financial statements (paragraph 29)?*

Do you agree that if investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IAS 39 in the consolidated financial statements, then such investments should accounted for in the same way in the investor's separate financial statements (paragraph 30)?

IAIS Response: The IAIS has no comment on this question.

Additional Comment

The IAIS would support the deletion of the phrase "undue cost or effort" that is currently included throughout the IAS. The IAIS considers this comment to be an unreasonable addition within the standards. The guidance provided in paragraph 44 of the IAS Framework regarding the balance between benefit and cost already addresses this issue. IAS 1, paragraph 35 provides one example for the unnecessary inclusion of this phrase:

"When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification would require undue cost or effort."

The IAIS feels that including this phrase will allow companies to avoid adequate documentation within the financial statements on the rationale of excessive cost or effort. The IAIS feels that adequate documentation should be maintained regardless. In the example given, the IAIS suggests the standard to be revised as follows:

"When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified"

IAS 1, paragraph 35 is only one example of this phrase in the standards. The IAIS recommends that all occurrences of this phrase throughout the standards be eliminated.

We appreciate the opportunity to comment on this IASB initiative. Should you have any questions, please contact Mr Mel Anderson (e-mail: Mel.Anderson@mail.state.ar.us Tel: + 1 501-371-2667) or Julie Gann (e-mail: JGann@naic.org Tel: +1 816-783-8125)

Yours sincerely,

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Chairman, Executive Committee

Martin Roberts
Chairman of Technical Committee