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September 16, 2002

Sir David Tweedie
Chair
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH,
United Kingdom

RE: Exposure Draft of Proposed Improvements to International Accounting Standards

Dear Sir David:

The International Accounting Subcommittee (the Committee) of the American Council of Life Insurers (ACLI) appreciates the opportunity to provide its comments to the International Accounting Standards Board (IASB) concerning the above referenced Exposure Draft (ED). The ACLI is the principal trade association of life insurance companies, representing 399 members that account for, in the aggregate, 75 percent of the assets of legal reserve life insurance companies in the United States.

The ACLI supports the efforts of the IASB to improve the financial reporting and work toward convergence of accounting standards. Eliminating redundancies and conflicts within the Standards are essential to achieve consistency and understanding.

While all Standards covered by this Improvements Project are important, the Committee has decided to limit its response to those Standards that are of the highest interest to the insurance industry. Our comments are primarily in response to the questions asked in the Standard. Additional comments are provided in response to IAS 1. The Standards included in our response are:

- IAS 1-Presentation of Financial Statements
- IAS 8: Accounting Policies, Changes in Accounting, Estimates and Errors
- IAS 24: Related Party Disclosures
- IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries

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IAS 1-Presentation of Financial Statements

Q 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 (see proposed paragraphs 13-16)?

A. While we do not object to the language contained in paragraphs 13-16, we believe the emphasis must be on the words "extremely rare".

Q 2. Do you agree with prohibiting the presentation of items of income and expense as 'extraordinary items' in the income statement and the notes (see proposed paragraphs 78 and 79)?

A. Prohibiting the presentation of items as "extraordinary" differs from current accounting guidance in various countries. For example, U.S. GAAP-*APB Opinion No. 30, Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, requires the separate presentation of extraordinary items. Since the national standard setters have indicated their desire to work toward convergence of accounting standards, these paragraphs should be excluded unless the national standard setters are in unanimous agreement with this guidance. If the paragraphs are retained, disclosure of extraordinary items should be made in the notes for the benefit of users of the financial statements.

Q 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 an 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 authorised for issue (see proposed paragraph 60)?

A. We agree that a financial liability should be classified as a current liability when an agreement to refinance on a long-term basis is completed before the financial statements are issued. Material events subsequent to the Statement date, should be disclosed in the Notes to the Financial Statements rather than reclassification.

Q 4. 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 be 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 authorised 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 rectify the breach and during that time the lender cannot demand immediate repayment, the liability is classified as non-current if it is due for settlement, without that breach of the 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 grace is incomplete and its probable that the breach will be rectified (see proposed paragraphs 63 and 64)?

A. We agree that long-term liabilities due within twelve months should be classified as current even though an agreement to refinance is executed before the Statements are issued. Similar to our response to question No. 3, subsequent events that are material, should be disclosed in the Notes. We also support the classification of liabilities for financial institutions using the liquidity approach as described in paragraph 52.

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

A. The Committee disagrees with the guidance contained in paragraphs 108 and 109 and recommends their elimination. We believe that IAS 1, Presentation of Financial Statements, is a fundamental accounting standard and as such, provide the principles for financial reporting including the requirement to disclose the accounting policies used by the entity. Management must constantly make judgements about accounting policies and assumptions, most often because alternatives are available. For example, management must decide which category to place a financial instrument, Held-to-maturity, available-for-sale or trading under IAS 39. Requiring management to disclose the thought process to arrive at their decisions is excessive disclosure and will lead to second-guessing by users especially when they have the benefit of hindsight. In some cases, disclosure of certain judgements made by management may be appropriate. The specific Standard should contain guidance about such disclosures where they are material to the measurement and presentation of financial information.

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

A. We also disagree with the guidance contained in paragraphs 110-115 and recommend their elimination. The reasons expressed for eliminating paragraphs

108-109 in response to question 5 also apply to this question. In addition, we believe that disclosures about the future will be difficult to audit leading to increase cost with marginal value. If different assumptions were made leading to materially different results, one may raise the question whether there is a going concern issue, which is already covered by paragraphs 18 and 19. Discussion about the future is best presented in supplemental information, i.e., MD&A, not in the notes to the financial statements except when a specific Standard requires disclosure.

In addition to the answers to the questions provided above, we offer the following comments with respect to other sections in this proposed Standard.

Issue: Added language to paragraph 49

Recommendation: We recommend additional language to this paragraph to enhance its understanding as follows:

> **"An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 56-64 except when <u>*a Standard specifically describes a different presentation or when*</u> a liquidity presentation provides more relevant and reliable information."**

IAS 8: Accounting Policies, Changes in Accounting, Estimates and Errors

Q1. 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?

A. We agree in principle with the proposal to retrospectively apply the effects of any changes or corrections.

IAS 24: Related Party Disclosures

Q1.Do you agree that this 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)?

A. We agree that the Standard should not require disclosure of management compensation. Reporting management compensation and other similar items is often reported in supplemental information, which we believe is more appropriate.

Q2. Do you agree that the standard should 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 that entity belongs?

A. We disagree with the requirements of paragraph 3 and support the dissenting views of the Board expressed in paragraphs B4-B6.

IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries

Q1. Do you agree that a parent need not prepare consolidated financial statements if all the criteria in paragraph 8 are met?

A. We agree with the criteria contained in paragraph 8.

Q2. Do you agree that minority interests should be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity?

A. We do not object to the presentation of minority interests in the consolidated balance sheet especially where the Standard is consistent with those of other national standard setters.

Q3. 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?

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 be accounted for in the same way in the investor's separate financial statements?

A. We believe the equity method should be retained as it represents a more appropriate value of the entity in separate financial statements.

We thank you for the opportunity to present our views on this important project and look forward to further discussions with the IASB and its staff.

Sincerely,

James F. Renz
Senior Accountant
American Council of Life Insurers