The Actuarial Profession
making financial sense of the future

13 September 2002

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sirs

EXPOSURE DRAFT "IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STAN DARDS"

The actuarial profession has considered the Exposure Draft "Improvements to International Accounting Standards" largely from a consideration of how the relevant accounting standards would fit with the insurance project. In this context we set out below some comments on IAS 1, 8 and 27.

It is unfortunate, given the accounting vacuum caused by the absence of a standard covering insurance, that completion of the insurance IFRS will be delayed for a few years following the 2005 deadline for the implementation of IAS/IFRS by EU listed companies in their consolidated financial statements.

Given the above scenario, we can foresee, as was foreseen by the DSOP project, potentially voluminous disclosures for insurance companies in implementing paragraphs 108/109 and 100-115 of IAS 1. We would hope that insurance companies, in respect of their policyholder liabilities, could look to the eventual insurance IFRS (and IAS 32/39 in respect of those policyholder liabilities which come within the definition of financial instruments) to determine the type of disclosures needed in these areas. However, pending an insurance IFRS, it leaves open the question about interpreting these paragraphs.

We also have some concerns about IAS 8 from an insurance viewpoint. In the absence of an insurance IFRS, it will be difficult to achieve consistent interpretation of paragraphs 5 and 6. We would, in particular, be rather concerned if paragraph 6(c) was interpreted as giving any particular authority to US GAAP, given that the eventual form of the insurance IFRS is (so we understand) unlikely to follow US GAAP. In the period between the publication of the insurance IFRS and the date on

Faculty of Actuaries
Maclaurin House
18 Dublin Street
Edinburgh EH1 3PP
Tel: +44 (0)131 240 1300
Fax: +44 (0)131 240 1313
e-mail: faculty@actuaries.org.uk
www.actuaries.org.uk

Institute of Actuaries
Staple Inn Hall
High Holborn
London WC1V 7QJ
Tel: +44 (0)20 7632 2100
Fax: +44 (0)20 7632 2111
e-mail: institute@actuaries.org.uk
www.actuaries.org.uk

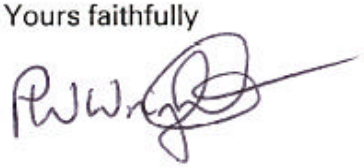
Institute of Actuaries
Napier House
4 Worcester Street
Oxford OX1 2AW
Tel: +44 (0)1865 268200
Fax: +44 (0)1865 268211
e-mail: institute@actuaries.org.uk
www.actuaries.org.uk

which compliance with it becomes mandatory, we can also see problems with paragraph 19, unless it is accepted that failure to comply with 19(d)(i) can be readily justified on the grounds of “undue cost or effort”.

With the aim of achieving a significant improvement in consistent accounting for insurance contracts that fall outside of other standards, we suggest that guidance be issued in the area “renewal principle” to use the jargon of the DSOP. This is a complex challenge but guidance is essential to help ensure that users do not inadvertently include elements of economic value that the IASB consider to be inappropriate. Any such guidance should also be consistent with any supplied under IAS39 for those insurance contracts that fall within that standard (see above).

In the context of IAS 27 the ownership structure of some long-term insurance funds puts the application of paragraph 17 under strain. For example one insurance fund may transact with another fund to provide services. The shareholders’ interest in the funds may differ, for example one might be 100:0 (policyholder; shareholder) or 0:100 and the other 90:10. This inconsistency in the shareholders’ interest requires refinement of wording in paragraph 17 or elsewhere in the standard.

Yours faithfully



P W Wright
Chairman
Accounting Liaison Group