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Peter Clark
Senior Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Re: Exposure Draft 5

Dear Mr. Clark:

Having recently worked with financial and market regulators in various markets on matters regarding insurance companies and having worked on disclosure issues in the past, I would like to comment on the disclosure requirements of Exposure Draft 5.

Disclosure is an indispensable tool for regulators in fulfilling their public obligations in regards to financial institutions and insurance companies. The act of complying or failing to comply with disclosure requirements is an invaluable indication of the quality of the financial reporting and auditing of the financial statements. Detailed requirements that disaggregate the highly summarized information in the financial statements is provides a means for testing the financial statements for internal consistency and for comparison with peer institutions. Incomplete, inconsistent or inscrutable disclosures prompt inquiries by letter or other means and often lead to requests to improve or restate financial information. For example, in many countries preparers routinely disregard disclosure requirements such as those included in IAS 30, the closest analogy to this standard. Disclosure about maturities of liabilities, concentrations of assets, liabilities and off balance sheet financing, collateral, and related parties are routinely omitted from financial statements without qualification or emphasis of matter by the auditors. Failure to state the requirements in relatively precise terms will impair the ability of recently formed or institutionally underdeveloped regulators to detect such practices and therefore lead to a general lowering of the quality of financial reporting.

The reasons cited for general principles are the same ones we heard ten years ago about disclosure overload. While at the FASB I investigated those claims and found them to be specious. The technology available for storing, searching and retrieving information today has vastly increased the ability of users of financial statements to process data while the amount of information provided has actually declined. In some countries, the decline may be due to the information loss inherent in aggregation and summarization as organizations become larger and more complex.

The argument against hard wiring disclosure requirements was also unsupported. Our reviews of disclosure checklists found virtually no instances. It appeared that disclosure requirements become insufficient over time, not obsolete, as the nature or extent of transactions and property rights change over time or issues achieve higher levels of importance due to external events.

That said, important disclosures that are absent from this exposure draft related to the issues specified in the paper Supervision of Financial Conglomerates prepared by the Joint Forum on Financial Conglomerates and issued in February 1999. The standard is drafted as if insurance companies are stand-alone entities, a situation that is rare or nonexistent in many countries. Many insurers provide material insurance services to leasing subsidiaries and other related entities (often the majority of the business) with little or no disclosure. Both the setting of premiums and the settling of claims are done between related parties. Further, the risk from the insurable events has been retained within a single group of companies, sometimes consolidated but often not. Even when consolidated, there is inconsistent compliance with the requirements of IAS 14 to separate internal and external revenues. This concentration of risk within a consolidated entity or group is important to both regulators and investors. As noted previously, the requirements of IAS 30 in regards to concentrations of risks are often ignored despite being relatively specific. This standard does not specify concentrations to be addressed and adds the term “material” which could lead to even lower levels of compliance due to the way that term is often interpreted.

As the February 1999 paper notes, double counting of regulatory capital is also an issue. This is especially important in unconsolidated groups under common control where intercompany balances are not eliminated. This would appear to be an opportune time to consider the objectives of the paper and include appropriate disclosure requirements in the standard.

Sincerely

John Hepp