



6/11
Old Mutual plc

3rd Floor, Lansdowne House, 57 Berkeley Square, London, W1J 6ER

Telephone: +44 (0)20 7569 0100 Fax: +44 (0)20 7569 0250

E-mail: julian.roberts@omg.co.uk

Julian V F Roberts

Group Finance Director

Direct Telephone: +44 (0)20 7569 0267

Direct Fax: +44 (0)20 7569 0212

4 November 2002

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sirs

Comments on the Exposure Draft regarding the First-time Application of International Financial Reporting Standards – July 2002

In response to your invitation to comment on the main changes proposed in the above exposure draft please find attached a paper that sets out Old Mutual plc's comments. Please note that our comments are sent in strictest confidence.

If you would like to discuss any of our comments please do not hesitate to contact me or John Ross, Head of Group Finance or Katie Murray, Group Systems and Development Manager.

Yours faithfully

A handwritten signature in black ink, appearing to read "Julian Roberts", written over a horizontal line.

Julian Roberts

cc: John Ross
Katie Murray



**Exposure draft – First-time application of
International Financial Reporting Standards**

Old Mutual response

4 November 2002

1	Overall comments	2
2	Question 2 – Are the exemptions in paragraphs 13-24 appropriate? Should the Board amend any of these exemptions or create any further exemptions? If so, why?	2
2.1	Associates and joint ventures	2
2.2	Treatment of ‘acquired PVIF’	2
3	Question 3 – Should the presentation and disclosure requirements of all IFRSs be applied in full on first time application of IFRS? Should there be any additional disclosures or exemptions? If so, why?	3

1 Overall comments

Overall we are pleased that the IASB has proposed to introduce a standard on first time application of IFRS and we find this very helpful, particularly the overriding principle of not requiring full retrospective application of all IFRSs, which significantly reduces the burden on groups such as ourselves in terms of data collection in time for 2005.

Notwithstanding the benefits that this standard will give to the group, as you will appreciate, the issue of valuation of insurance assets and liabilities remains a critical consideration for our implementation. We have significant life assurance operations in two of our principle territories, including the largest life insurance operation in South Africa. Some of our comments below relate specifically to the implications for insurers of the uncertainties with regard to the 'interim solution' for insurers, particularly the disclosure and presentation standard due in Phase 1, and the application of IAS 39 to those contracts that meet the definition of a financial instrument.

2 Question 2 – Are the exemptions in paragraphs 13-24 appropriate? Should the Board amend any of these exemptions or create any further exemptions? If so, why?

2.1 *Associates and joint ventures*

We note that the exemption in paragraph 20 in respect of business combinations does not take associates or joint ventures into consideration. We believe that the scope of the exemption should be widened so that associates and joint ventures should be able to be treated in a similar way to other previous business combinations on first time application.

2.2 *Treatment of 'acquired PVIF'*

Paragraph 20(a) of the exposure draft requires assets acquired as part of a business combination that require a cost-based measurement under IFRS to be included in the opening IFRS balance sheet at their deemed cost, being the amount shown under previous GAAP.

This exemption presents a specific dilemma for insurers in terms of accounting for acquisitions of insurance businesses on transition from UK GAAP to IAS. Under UK GAAP for insurers it is accepted practice to account at acquisition for a separate intangible asset relating to the insurance portfolio transferred. This is referred to as 'acquired present value of in-force' (or acquired PVIF).

Acquired PVIF is the inherent value of profits within a portfolio of insurance contracts (or within an insurance business), which, due to the nature of the valuation of liabilities under those contracts, is prudently deferred. An intangible asset is recognised in the balance sheet to reflect the fair value of such future profits on acquisition. Under

UK GAAP such an intangible asset is capitalised and amortised over the expected period of profit emergence. The value of the acquired PVIF asset is directly related to the value of the underlying insurance assets and liabilities of the acquired business.

Paragraph 20(a) requires entities to account for such assets at their 'deemed cost' on first time application, being the value previously recorded under UK GAAP. However, under the requirements of paragraph 21, on first time application, the related underlying assets and liabilities will be revalued under applicable IFRSs (although this is dependent on the 'interim solution' for insurers). Where the PVIF relates to contracts recognised as a financial instrument and the associated liability is measured at either fair value or amortised cost, future profits may have been taken account of to some degree in determining the value of the liability. It is unlikely to be appropriate under such circumstances to recognise the full PVIF asset. Instead, the PVIF asset should be reduced to the extent of any future margins reflected in the value of the liability. This adjustment would not be reflected through retained earnings.

It would continue to be appropriate to recognise a PVIF asset where insurance contracts are not measured at fair value under local GAAP (assuming no changes to the recognition and measurement criteria for intangible assets).

As a result of this potential anomaly we suggest that the IASB considers an alternative approach, for example:

- Specifically exempting acquired PVIF from the requirements of paragraph 20(a);
- Allowing within the exemption for a different treatment of such potential anomalies in specific circumstances, for example the offsetting of such assets against value changes in the corresponding insurance liabilities.

3 Question 3 – Should the presentation and disclosure requirements of all IFRSs be applied in full on first time application of IFRS? Should there be any additional disclosures or exemptions? If so, why?

We agree with the IASB's overall approach with regard to the requirement in paragraph 28 for entities to apply the full disclosure requirements of all applicable IFRSs on first time application. However, we are presently unable to fully assess the implications for data collection in all respects, in view of the fact that the proposed disclosure standards for insurance and reporting financial performance have not yet been published for consultation. With this in mind, the Board might wish to consider whether to exempt insurers from certain aspects of the requirements of this paragraph, for example the presentation of certain comparative information in the first IFRS financial statements.