Field Testing – Round 1

In Round 1 of the targeted field test we ask you to submit information on specific topics prior to the publication of an exposure draft (ED). The questions we would like you to answer are detailed below. The questionnaire is supported by background information, including the most recent decisions made by the IASB and FASB boards.

We shall treat any information that you provide to us in the strictest confidence.

Acquisition costs

Return date: 15 October

Question 1

How do you treat acquisition costs under your current accounting model? If you currently defer acquisition costs, what type of expenses do you include in the asset for deferred acquisition costs? If you currently recognise acquisition costs as an expense, do you disclose their amount?

In their deliberations on the insurance project so far, the boards have reached different tentative conclusions on the treatment of acquisition costs.

Description	Preferred Accounting Treatment
Tentative FASB decision	• all (whether incremental or not) acquisition costs are expensed when incurred; and • no revenue (or income) is recognised at inception to offset those costs incurred.
Tentative IASB decision	• all acquisition costs (whether incremental or not) are expensed when incurred; and • at inception, revenue is recognised for the part of the premium that covers acquisition costs. For this purpose, acquisition costs should be limited to the incremental costs of issuing (ie selling, underwriting and initiating) an insurance contract and should not include

	other direct costs. Incremental costs are those costs that the insurer would not have incurred if it had not issued those contracts.

Question 2

Under the FASB proposal, what would be the impact on the financial statements of:

a) eliminating the balance of deferred acquisition costs (if any) on date of transition (please describe the impact on shareholder's equity)?

b) expensing the acquisition costs for financial reporting periods going forward from the effective date of application (please describe the impact on profit or loss)?

We suggest that you prepare this analysis based on your 2008 financial statements.

Question 3

Under the IASB proposal, what would be the impact on the financial statements of:

a) adjusting the balance of deferred acquisition costs (if any) to incremental costs on date of transition (please describe the impact on shareholder's equity)?

b) expensing the acquisition costs and recognising revenue to cover incremental acquisition costs for financial reporting periods going forward from the effective date of application (please describe the impact on profit or loss)?

We suggest that you prepare this analysis based on your 2008 financial statements.

Question 4

In order for us to obtain a sense of the magnitude of acquisition costs (**both incremental and total**) compared to the total contract size please provide us with acquisition costs expressed as a percentage of:

a) total contract premiums over the whole life of the contract

b) the first premium for recurring premium contracts.

It would be useful if you could provide an analysis of how your results vary by product type and geography.

Question 5

If the IASB's tentative decision is implemented, do you expect any issues with identifying the incremental acquisition costs (**thus excluding other direct costs that are not incremental at the contract level**)[1], either on date of transition or for financial reporting periods going forward? If you do, please provide further information.

Question 6

Some insurers issue investment contracts. Investment contracts are financial instruments that do not transfer enough insurance risk to qualify as insurance contracts. Examples are some single-premium or long–term savings contracts.

Some investment contracts are in the scope of IFRS 4 *Insurance Contracts*, notably those contracts that contain a discretionary participation feature (DPF).

If relevant, could you give an indication of the impact of each of the proposed accounting treatments for:

a) investment contracts that contain a DPF?

b) investment contracts that do not contain a DPF?

Question 7

In your opinion which of the two accounting treatments is the most decision useful and why?

Please submit your results to Jane Jordan (jjordan@iasb.org) by 15th October.

Sources of information

Agenda papers

- IASB / FASB Observer notes 11D (Joint meeting July 09).

[1] This definition of acquisition costs is consistent with how transaction costs are determined in paragraph 9 of IAS 39, *Financial Instruments: Recognition and Measurement.*