Chairman IASB

30 Cannon Street,

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United Kingdom

12, November 2013

Dear Mr. Hoogervorst

Re: ED/2013/7 *a revision of ED/2010/8* Insurance Contracts

We are pleased to comment on this new exposure draft (the ED). Indeed, we support the Board's decision to consult once again on the new proposals as we believe that this project is a major one, addressing as it does a significant portion of the global economy. We also welcome many of the changes, which result from important comments received on the previous exposure draft, and the Board's obvious effort to reduce accounting mismatches and better depict the long-term aspects of the insurance industry's business model.

We especially welcome the decision to use the contractual service margin to recognize changes in cash-flow estimates relating to future service, although we believe that the Board should go further and also consider including changes in the estimates of the risk adjustments in this and, for participating contracts, the expected future profits corresponding to the share of the insurer in the value of the assets backing the contracts. We also welcome the Board's efforts to insulate net income from changes in the discount rate, as we strongly believe that such volatility has nothing to do with the performance of an insurer over the period. However, we still think that the Board should extend the use of the FVOCI category to all assets backing insurer's obligations, including equity instruments and derivatives.

Overall, we believe that the Board has a good understanding of the challenges of reducing accounting mismatches but the new proposals (for both IFRS 4 and IFRS 9) are still insufficient to depict appropriately the insurer’s performance within its long-term business model based on asset / liabilities management strategies.

Finally, we also appreciate the Board’s efforts regarding the contracts for which there is a link to the return on assets and its efforts concerning transition requirements. However we believe that the proposed approach for some participating contracts is not accurate as it would depart from the way the contracts are managed, would be very complex to implement and would not provide useful information on the performance of the contracts, as, under the proposals, the cash flows should be bifurcated depending on whether they vary directly, indirectly or not with the return on assets and the change in the time value of options and guarantees would have to be booked in the income statement. For these reasons, we would like to suggest the alternative approach, which is presented in the Appendix in our response to Question 2.

In respect of the effective date, we believe that it is crucial that insurers have the opportunity to apply IFRS 9 and the final insurance contracts standard at the same time.

Yours sincerely,

ACTEO	AFEP	MEDEF
Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs

APPENDIX

Question 1—Adjusting the contractual service margin

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if:

Firstly, we would like to reiterate our support for the IASB's approach, which requires a separate risk adjustment and a residual margin, as it is more transparent and therefore provides for the best understanding of the risk and uncertainty arising from insurance contracts. In contrast to what we have said in the context of other non-contractual liabilities, we believe that taking into account a systematic and explicit risk adjustment is relevant in the insurance context because these adjustments are properly identified in the course of the pricing of the contract and thus more reliable. We also welcome the Board's decision not to limit the techniques permitted to determine the risk adjustment and thus to remain in a principle-based approach within the objectives described in paragraph B81.

(a) differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services are added to, or deducted from, the contractual service margin, subject to the condition that the contractual service margin should not be negative; and

(b) differences between the current and previous estimates of the present value of future cash flows that do not relate to future coverage and other future services are recognised immediately in profit or loss?

Why or why not? If not, what would you recommend and why?

We agree, and welcome this decision to unlock the contractual service margin (CSM) as it is consistent with the nature of this margin as defined in the ED, i.e. it represents expected future profits to be earned as the services are provided by the insurer. In addition, it helps to reduce undue volatility in net income and to avoid misleading outcomes. We agree with all the reasons presented in paragraph BC 31.
We also agree that such "unlocking" should be limited to changes related to future coverage and other services, and that changes related to past periods should be immediately recognized in net income, as is the case for many other changes in asset / liability values. However, favourable changes in expected profit after the CSM has been exhausted or in contracts that were deemed onerous at inception should lead to the rebuilding of the CSM only when all prior losses that have been recognized in the P&L are reversed;

Concerning the period of recognition of these adjustments, and more generally that of the contractual service margin, we believe that these should be released over the whole contract duration including the settlement period and not just the coverage period. The performance of insurers is judged against their management of the full economic life of each claim, and that includes claims handling on behalf of the insuree.

We also believe that the Board should reconsider its position concerning changes in the risk adjustment. We are not convinced by the arguments exposed in the basis for conclusion, and we believe that the cost / benefit balance has not been appropriately assessed. Indeed, we do not think that distinguishing the changes in risk adjustment between past and future services is so complex that it justifies the undermining of the relevance of net income.

Question 2—Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items

If a contract requires an entity to hold underlying items and specifies a link between the payments to the policyholder and the returns on those underlying items, do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if the entity:

(a) measures the fulfilment cash flows that are expected to vary directly with returns on underlying items by reference to the carrying amount of the underlying items?

(b) measures the fulfilment cash flows that are not expected to vary directly with returns on underlying items, for example, fixed payments specified by the contract, options embedded in the insurance contract that are not separated and guarantees of minimum payments that are embedded in the contract and that are not separated, in accordance with the other requirements of the [draft] Standard (i.e. using the expected value of the full range of possible outcomes to measure insurance contracts and taking into account risk and the time value of money)?

(c) recognises changes in the fulfilment cash flows as follows:

I. changes in the fulfilment cash flows that are expected to vary directly with returns on the underlying items would be recognised in profit or loss or other comprehensive income on the same basis as the recognition of changes in the value of those underlying items;

II. changes in the fulfilment cash flows that are expected to vary indirectly with the returns on the underlying items would be recognised in profit or loss; and

III. changes in the fulfilment cash flows that are not expected to vary with the returns on the underlying items, including those that are expected to vary with other factors (for example, with mortality rates) and those that are fixed (for example, fixed death benefits), would be recognised in profit or loss and in other comprehensive income in accordance with the general requirements of the [draft] Standard?

Why or why not? If not, what would you recommend and why?

Firstly, we wish to stress once again that we support all the Board's efforts to reduce accounting mismatches that do not reflect the economics of insurance Business model. However, we have different views from those of the Board on how to achieve this objective.

Our first comment concerns the scope proposed for a "specific accounting model": we think that all participating contracts which have similar characteristics should be accounted for in a similar way. Linked measurement should be permitted (required) for all contracts that provide policyholders with an investment return affected by the performance of underlying items, even if there is no a contractual link nor requirement to hold those assets. We are not convinced by the arguments developed in paragraph BC70, which explains that the Board has rejected this wider scope only because it should be limited to circumstances where there is no mismatch possibility.

While we support a consistent measurement for both liabilities and the underlying assets, we indeed, consider that the approach proposed in the ED which requires the bifurcation of cash-flows is both extremely complex to implement and denies the economic reality of contracts that represent a set of intrinsically linked cash-flows. Such bifurcation will also lead to the recognition through net income of short-term volatility due to the options embedded in the contracts, and this will not be representative of the long-term operating performance of insurers.

We would be more supportive of a method whereby all insurance liabilities are measured in the same way. We therefore suggest that the Board explore an alternative approach as proposed by the European insurance industry and of which a first description was presented in EFRAG's draft comment letter (Appendix 5).
We believe that the accounting for participating contracts should be based on the main following characteristics: Participating contracts should be measured at current fulfillment value on the face of the balance sheet without bifurcation of cash flows and the CSM which represents the unearned profit associated with these contracts should be determined on a fully unlocked basis, including the changes in assets returns that impact the insurer's share of expected profits but excluding short-term fluctuations that reverse over time The short-term fluctuations, including those that affect the time value of options and guarantees, should be recognized in OCI.

Indeed, this approach would be consistent with the overall building block approach (considering the insurance contract as a bundled set of rights and obligations) and with the way insurers assess their performance.

Question 3—Presentation of insurance contract revenue and expenses

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial performance if, for all insurance contracts, an entity presents, in profit or loss, insurance contract revenue and expenses, rather than information about the changes in the components of the insurance contracts?

Why or why not? If not, what would you recommend and why?

As expressed in our response to the first ED, we believe that the summarised margin presentation provides useful information to investors and it is consistent with the building block approach required for the measurement of liabilities. Users have also expressed their need for volume information such as premiums, claims and expenses, and such information would usefully be disclosed in the notes.

Actually, the new proposal to disclose "earned premium revenue" is an artificial rebuilding of the premiums and is not consistent with the way insurers manage and communicate their performance.

It will need significant work to “rebuild” artificial data, which we doubt would be understood and therefore would be unlikely to be useful. Furthermore, we disagree with the requirement to disaggregate ‘non-distinct’ investment components for the P&L presentation: this is not only contradictory to the ED’s principle of separating only those elements of insurance contracts that are distinct, but also would be very complex and unduly costly to implement.

Question 4—Interest expense in profit or loss

Do you agree that financial statements would provide relevant information that faithfully represents the entity’s financial performance if an entity is required to segregate the effects of the underwriting performance from the effects of the changes in the discount rates by:

(a) recognising, in profit or loss, the interest expense determined using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows; and

Yes, we agree and support this principle to keep a cost-based measurement for net income.

(b) recognising, in other comprehensive income, the difference between:
(i) the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date; and
(ii) the carrying amount of the insurance contract measured using the discount rates that applied at the date that the contract was initially recognised.

We welcome the Board’s efforts to protect net income from short-term movements in the discount rate that do not depict the insurer’s performance. As we had suggested in our comment letter to the first exposure draft, the use of OCI may be one solution. However, this solution will not be perfect as long as the scope of assets eligible for a symmetric measure is not expanded. We thus urge the Board to reconsider its position and permit all assets that relate to insurance liabilities (including, in particular, debt instruments that do not meet the contractual cash-flow characteristics assessment, equity shares, derivatives and property), to be measured at fair value through OCI, with returns on assets, gains and losses on realization and impairment recognized in net income.

For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows?

Why or why not? If not, what would you recommend and why?

Question 5—Effective date and transition

Do you agree that the proposed approach to transition appropriately balances comparability with verifiability?
Why or why not? If not, what do you suggest and why?

We welcome the modified retrospective approach for transition which would avoid the resetting of the residual at the transition date at zero, as proposed in the first exposure draft.

Concerning the effective date, we believe that is essential that for insurers at least the mandatory dates of IFRS 9 and the forthcoming insurance standard are aligned because, in the insurers' Business model, liabilities are not dissociated from assets and the accounting provisions should perfectly reflect this link. In the meantime, earlier application of both standards should be allowed.