Date

27 May 2008

Le Président

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Dear Sir,

Re: Second Exposure Draft of "Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins"

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) welcomes the opportunity to comment on the second Exposure Draft of the proposed guidance on this topic. As auditors our role with respect to the measurement of liabilities for insurance contracts is to provide assurance of the compliance of figures presented and methods used with the relevant accounting standards. Accordingly, our comments are limited to general observations on the Exposure Draft and do not address the specific questions posed in the letter dated 24th March 2008.

2. We appreciate the educational effect of the paper by summarising current actuarial techniques in estimating the mean value of future cash flows under an insurance contract and its risk margins. It is not clear whether the objective as set out in the draft has been met. From its wording it does not appear to be restricted to IAIS or IASB projects. We consider it necessary for an evaluation of actuarial approaches that the measurement attribute is taken into account as a benchmark for that evaluation. The IASB Framework requires that the information has to represent faithfully that it either purports to represent or could reasonably be expected to represent (IASB Framework paragraph 31). Therefore, we would have expected a discussion whether and how actuarial approaches can be applied to result in values representing a current exit value as proposed in IASB´s Discussion Paper on Insurance.

3. Chapter 4 on current estimates is discussing extensively the cash flows to be considered and their sources. We believe that this is to be debated by the authors of financial reporting standards. We would have expected to see a more in depth study of which issues arise in providing for example an estimate of the prospective mean value of those cash flows defined by the standard setter. Furthermore, we would have expected a discussion of the possible approaches to provide such an estimate, given that there are little or even no observable market data suitable for the estimation, which is a very common situation in estimating insurance cash flows. The question how a lack in objectivity is overcome, e.g. by defining the measurement attribute and accounting guidance or by delegating responsibilities to the actuarial profession, is a decision to be taken by the standard setter.

4. The document does in our view not adequately address, whether and how the measurement attribute “current exit value” can be translated into practical actuarial approaches. E.g. chapter 4.4.2 concludes that a model approach is used, without explaining how that can emulate a market price. To achieve that, the discussion can not be limited to already generally used margin techniques but must be extended to a reflection of the price that a market participant would charge for accepting the risk and the obligation in its entirety. This characteristic would need to be included as a measure as well in the qualitative comparison of various risk margin methods in chapter 6.11. We understand, that IAIS requested a survey about generally used margin techniques, but it can be expected that a fundamentally new measurement requirement as proposed in the IASB Discussion Paper would need a reconsideration of alternatives, which are not commonly in use yet.

5. Hence in a situation, where market participants would not consider the shortcomings of one approach as being relevant for the pricing of a specific risk, that approach may as well be acceptable as apparently more complete or a better approach to reflect the relevant aspects as it is the case for cost of capital. As a consequence the cost of capital approach may, but doesn’t need to be necessarily the best approach to fulfil the measurement objective of a current exit value in any specific case.

6. We have doubts whether the evaluation of quantile approaches in the draft reflects adequately the differences and possible approaches covered within the variety of approaches assembled in that group. We believe that higher moments, as the standard deviation around means, have practically similar qualities as cost of capital, not sharing the shortcomings of quantile techniques. As mentioned before, most relevant is that margins consider any aspect of price, which a market participant would consider.

7. It may well be the case that for regulatory purposes a specific approach, as for example cost of capital and a quantification of it are prescribed as a rule. We note that any such simple setting may be arbitrary and not necessarily fully reflect the economic situation. In a situation where accounting standards require a current exit value as a principle and where market margins cannot be derived in an objective manner it is up to the management’s judgement to select the most appropriate methodology to arrive at values in accordance with the measurement attribute. We therefore believe that further discussion is required of the necessary conditions that must be fulfilled for the application of each actuarial approach and its limitations.

We would be pleased to discuss any aspect of this letter with you.

Yours sincerely,

Jacques Potdevin
President

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