

July 14, 2006

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

The July IASB Meeting

Dear Sir David

At the July meeting of the IASB we understand that there will be discussion of topics related to Phase II of the Insurance Contracts Project. The Group of North American Insurance Enterprises (GNAIE) and the four Japanese Life Insurers offer the comments below on the issues to be discussed. These comments are not intended to be a final and complete discussion of the issues, but are a summary based on our continuing discussions with users, preparers and other interested groups. We want to express our appreciation for the opportunity to give a joint presentation, with the CFO Forum, at the June Insurance Working Group meeting and at the September IASB meeting. We look forward to sharing our views on these important topics with the IASB.

Premium presentation. *Should an insurer present all premiums as revenue, all premiums as deposit receipts or some premiums as revenue and some premiums as deposit receipts?*

We support the staff recommendation in paragraph 20 “that the Board wait until after the Discussion Paper stage before choosing between these alternatives.”

We also support the tentative conclusion of the IASB, as described in the April 2006 IASB Update, that "it should not require insurers to unbundle deposit and service components of insurance contracts for the purpose of recognition and measurement" and believe presentation should follow recognition and measurement. That is, if a contract meets the definition of insurance, all of the premium receipts should be presented as revenue.

Unit-linked insurance contracts. *Profit or loss could be affected when a unit-linked fund holds investments that are not measured at fair value through profit or loss. The Board observed in May that it would be preferable to eliminate such effects, but noted that eliminating them might create inconsistencies with other requirements of IFRSs. The*

Board will consider whether there are viable approaches that could address these concerns.

Unit-linked contracts should be treated like all other life insurance contracts (assuming the contracts qualify as insurance contracts, not investment contracts). The insurance contract liability should be equal to the present value of future expected benefits and expenses, without exception, less the present value of future gross premiums. The discount rate should always be based on the expected return on the investments underlying the liability. In this way, the liability should be equal to the fund balance, except in early years when a surrender charge may cause the liability to be slightly less than the fund value.

Investment fees charged against the fund are not the same as the fees charged against, for instance, mutual funds. While unit-linked investment fees may appear to be investment fees, in reality they may cover other risks such as mortality. The pricing of the product is done holistically and an attempt to disaggregate the investment fees from the mortality charges will not faithfully represent the contract. Guarantees of unit prices should be valued as part of the liability.

Group of North American Insurance Enterprises

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