![IAIS - International Association of Insurance Supervisors logo](logo)

21 October 2013

Ref: 13/97

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Mr Russell Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
United States of America

Re: Importance of Converged Insurance Contracts

Dear Messrs Hoogervorst and Golden:

We appreciate and acknowledge the considerable efforts the IASB and FASB (the Boards) have made to date in seeking common solutions to eliminate inconsistencies and weaknesses in existing accounting frameworks for insurance contracts. Supervisors are significant users of general purpose financial statements. The IAIS is a keen observer of and participant in the Boards' modified joint project on Insurance Contracts as this topic is of great importance for global financial markets in general and for insurance regulators in particular.

As you know, the IAIS has recently[1] committed to develop three new capital measures: backstop capital requirements (BCRs), higher loss absorbency requirements (HLA) to apply to global systemically important insurers (G-SIIs), and a risk based global insurance capital standard (ICS) that will apply to internationally active insurance groups (IAIGs, including G-SIIs). BCRs are scheduled to be developed by the time of the G20 Summit in 2014, the HLA by the end of 2015, and the ICS soon thereafter.

A key aspect of these capital measures is the desire for comparability of valuations across jurisdictions, reflecting both insurance liabilities and the assets supporting them. We fully acknowledge that achieving full comparability is a very difficult task. However, for the

---

[1] IAIS publication, '*IAIS Commits to Develop by 2016 a Global Insurance Capital Standard*', 9 October 2013

development of the BCRs, improved comparability of key balance sheet items is necessary. The need for improved comparability then extends to the development of the ICS.

We are concerned, therefore, that the Boards have not yet achieved sufficient convergence. We fully support a principle-based approach; however we are concerned that, in practice, there is too much flexibility or compromise reflected in the current valuation for insurance contracts. Although partially converged solutions are improvements over the current situation, we will be unable to use the standards as currently proposed without further adjustments to achieve comparability for capital measurement purposes. Those adjustments would differ depending on the accounting standards used, and would be in addition to the prudential adjustments we would expect to make.

It would be unfortunate if the IAIS is forced to develop and use alternative valuation processes for its capital work. This is not our preferred solution as it will increase costs to insurance entities and may lessen the usefulness of general purpose financial statements, particularly if analysts and investors develop a preference for more comparable regulatory reporting. This is already the case in the US, where analysts tend to rely on NAIC reporting rather than financial statements.

The IAIS therefore urges both Boards to continue working towards the valuable goal of a converged, high-quality principles-based insurance contracts accounting standard that is robust and can deliver comparability of valuation outcomes across jurisdictions.
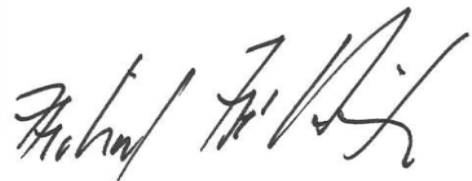
As the Boards begin to analyse the feedback they receive on their 2013 draft standards, we urge you to renew efforts to develop a converged Insurance Contracts standard.

If you have questions regarding this letter, please contact Aina Liepins at the IAIS Secretariat (tel: +41 61 280 8199; email: aina.liepins@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Issues Subcommittee (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,

Peter Braumüller
Chair, Executive Committee

Michael McRaith
Chair, Technical Committee

cc: Mr Svein Andresen, Secretary General, Financial Stability Board