June 30, 2010

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: Exposure Draft 2009/12, *Financial Instruments: Amortised Cost and Impairment*

The Financial Reporting Committee and the Life Financial Reporting Committee of the American Academy of Actuaries[1] are pleased to provide comments to the International Accounting Standards Board (IASB) concerning Exposure Draft 2009/12, *Financial Instruments: Amortised Cost and Impairment.*

A major aspect of the actuarial profession's expertise is the valuation of investment contracts that may be defined as financial instruments eligible for amortized cost under IFRS 9. Such contracts include guaranteed investment contracts and term certain payout annuities. Our comments primarily concern such investment contract liabilities. In general, we agree with the proposed guidance. However, although we agree with emphasizing measurement principles rather than detailed implementation guidance, we believe that including some numerical examples reflecting financial liabilities would be helpful in clarifying the proposed principles.

Paragraph 5 states that "The effective return reflects an allocation over the expected life of the instrument of fees, points paid or received, transaction costs and other premiums or discounts…" We understand this to mean that the amortized cost of a financial liability should be net of any transaction costs incurred to obtain that liability, and those costs would be allocated to the liability over time through the effective return. If this interpretation is correct, we believe this is appropriate. We also believe that such treatment of acquisition costs should be afforded to pre-claim insurance liabilities; that is, the amount of any transaction costs to acquire an insurance contract should be netted against the liability measurement.

Below are our responses to the specific questions asked in the Exposure Draft:

Q1. We believe that the objective of amortized cost measurement in the exposure draft is clear.

Q2. We believe that the objective of amortized cost set out in the exposure draft is appropriate for that measurement category. In fact, many pre-claim insurance contract liabilities may be sufficiently similar to the financial liabilities covered by IFRS 9 that it may be worth considering using this accounting treatment for such insurance contract liabilities.

Q3. We agree with emphasizing measurement principles in the standard, rather than including detailed implementation guidance. Measurement principles are better able to adapt to new innovative products. However, we believe that some illustrative numerical examples of financial liabilities and of the treatment of transaction costs would help demonstrate the measurement principles and ensure that the principles are properly understood.

Q4. Assuming our understanding is correct, we agree with the measurement principles set out in the exposure draft. In particular, we note that the treatment of the transaction costs is appropriate. As we understand the measurement principles, transaction costs would be excluded from the measurement of a liability measured at amortized cost and instead would be allocated over the life of the liability as part of the effective return. So if an entity issues a financial instrument liability, and received CU100 in cash but incurs CU5 in transaction costs, the initial amortized cost would be CU95 (we note that this would generally be true as well for a financial instrument liability measured at fair value). We believe that a similar principle should apply to the measurement of an insurance liability; that is, an insurance pre-claim liability should be measured at the consideration amount less any transaction costs incurred in acquiring that liability.

Q5. We believe that the objective of presentation and disclosure is clear and appropriate.

Q6. We do not believe that paragraph 13(b) is applicable to financial liabilities, since liabilities would not incur “credit losses,” but otherwise, we agree with the proposed presentation requirements.

Q7. Most of the required disclosures described in paragraphs 17 through 22 explicitly relate to financial assets, and we do not express an opinion on financial asset disclosures. We agree with the disclosures required in paragraphs 14, 16 and 18 as they relate to financial liabilities. However, we are concerned about the stress test disclosures described in paragraph 20. Stress tests could encompass many items, including: internal analyses and alternative scenarios, scenarios calculated for regulatory reporting (e.g., cash flow testing requirements promulgated by US insurance regulators), or alternate scenarios for corporate planning purposes. Such information could be extremely lengthy, difficult for users to interpret in the context of general purpose financial statements, and costly to provide. To reduce the volume and cost of providing such disclosures, language could be included providing, as an alternative, that a company may disclose, in connection with the requirements of paragraph 16, the impact on the reported value of the financial liabilities of alternative estimates. With such a disclosure, a company would not be required to disclose (any and all) other internal stress tests..

Q8. A three-year lead time between the adoption of the IFRS on amortized cost and its effective date should be adequate for the financial liabilities that actuaries typically value.

Q9. It is not clear from the transition rules provided which historical cash flows should be used to calculate the amortized cost upon transition. For example, if historical actual cash flows were not equal to those anticipated at inception, should the actual historical cash flows be used or should the cash flows that would have been anticipated at inception of the contract be used? The latter would be difficult, if not impossible, to ascertain, so we believe that the historical cash flows actually incurred through the transition date should be permitted to be used to determine the amortized cost at the inception date. With this clarification, the transition rules seem appropriate.

Q10. We agree with the proposed transition disclosures with respect to financial liabilities measured at amortized cost.

If you have any questions, please contact Tina Getachew, Senior Policy Analyst, Risk Management and Financial Reporting Council, by phone (+1 202/332-5958) or email (getachew@actuary.org).

Sincerely yours,

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