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Reference: ECO-ACC-09-071

Subject: **Preliminary Views on Financial Statement Presentation**

Brussels, 28 April 2009

Dear Sirs,

We, the CEA (the European Federation of insurers and reinsurers) and the CFO Forum (a body comprising 20 of Europe's largest insurance companies), welcome this opportunity to express the views of European insurers on this Discussion Paper on Financial Statement Presentation ("the discussion paper" or "DP").

We draw your attention to the fact that five large European insurers have taken part in the field testing of the proposals contained in this discussion paper. Those insurers have various business mixes, including life and non-life insurance and asset management as well as banking activities. The results of this field testing have been included in our response and are highlighted in text boxes in our answer to each question.

The comments summarised in this cover letter are developed further in our response to the questions raised by the Boards in the appendix to this letter.

Our overall view

We are not clear that there are any worthwhile benefits to users from the Discussion Paper's proposals. Moreover, whatever benefits there may be, they are clearly outweighed by the costs to preparers. On the positive side, we welcome the recognition of the principle that financial reporting should, whenever appropriate, reflect management's view, although this principle was not consistently and faithfully adhered to throughout the Discussion Paper.

Interaction with other IASB and FASB projects

Our understanding is that this project aims to establish reporting rules common to all companies in all industries. We have prepared our response in this context and based on existing IFRS literature. However, some specific measurement and presentation requirements may emerge from other IASB and FASB projects currently under review which could contradict or complicate the application of these proposals. In this regard, the Insurance Contracts project measurement principles will have significant implications for presentation and disclosure requirements, which may lead us to reconsider some of the views on financial statement presentation expressed in this letter. We are not in this comment letter prejudging what our position will be in relation to these other projects.

Further, to avoid financial statements becoming still longer and, as a result, perhaps less informative, we suggest that the Boards look at the whole package of disclosures that their various standards require with a view to ensuring that they result in financial statements that give a concise and integrated view.

Questionable benefits of the Discussion Paper proposals to users

We do not believe that there are any significant benefits in implementing the proposals for users of financial statements compared to current reporting requirements, as demonstrated by our field testing. We have identified a number of examples which are highlighted below and explained further in our answers to the questions.

Volume of data diluting important information

We are concerned about the apparent desire of the two Boards to give a lot of information on the face of the primary statements as opposed to in the notes. We fear that this could lead to lengthy primary statements which could impair the readability of the whole financial statements. This would, in our view, contradict one of the key objectives of this project, which is to increase the usefulness of financial statements for users.

In addition, the cohesiveness and disaggregation principles should be applied with judgment and pragmatism, in the light of what management believes is appropriate. Otherwise, there is a risk that companies will present very long financial statements which could dilute the important information for users given the significant volume of data.

Importance of applying a management approach to financial statement presentation

We believe that a management approach will provide the most useful information to users of financial statements. However, we note that in several areas, the Boards have proposed rules to deal with particular issues and such an approach can be seen as contradictory to a management approach. A particular example is the proposal to show cash equivalents separately from cash and hence prepare a cash flow statement that excludes cash equivalents. Insurers manage cash equivalents together with cash and any split between the two for presentation purposes would not only be contrary to the application of a management approach but would also result in a meaningless cash flow statement as it will exclude a significant part of our liquid day to day resources.

Another proposed rule which appears contrary to a management approach is limiting the financing category to financial instruments rather than considering all assets and liabilities as potentially financing in nature. Furthermore, we note that the treasury function is proposed as being classified in the financing section, regardless of how management views this activity inside the group. Finally, we believe that the management approach should also be retained when looking at basket transactions.

Lastly, we believe that the Boards should apply the management approach consistently across the discussion paper.

Cash flow statement - Usefulness and methodology

The value of any cash flow statement for insurance companies is deemed low as many products have a life cycle which is significantly greater than one year. Therefore, any cash flow statement (direct or indirect) covering one year will not provide users of financial statements with useful information. Many users of insurers' financial statements require additional information distinguishing between policyholder and shareholder cash flows in order to predict future cash flows and hence information is often provided outside the financial statements in non-GAAP disclosures.

In relation to the requirement in the discussion paper to produce a direct cash flow statement, many insurance companies currently do not have the IT systems that enable them to prepare such a statement. In addition, insurance and reinsurance business involves significant dealings with intermediaries (for example, agent, brokers, co-insurers and reinsurers) who would also have to change their systems in order to provide insurance companies with the type of data required to prepare a direct cash flow statement. This would undoubtedly generate high costs for insurance companies and intermediaries, while the added value seems very limited.

Limited value of the new reconciliation schedule

As indicated above, we do not believe that a cash flow statement provides useful information to predict future cash flows for insurance companies. Therefore, we do not believe that disaggregating cash flow positions into columns will increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows. Furthermore, we are concerned that the proposed reconciliation schedule requires companies to disclose a vast amount of data over several pages, much of which is not relevant and is likely to confuse the reader. The level of reconciling adjustments and explanation required will be extremely significant for businesses with long operating cycles.

We do not support a requirement to provide a reconciliation schedule in the format proposed within the financial statements but believe that the Boards should look at building on existing roll-forward analyses required by other standards as a means of providing linkages between primary statements.

Merging income statement and OCI items into a single statement of comprehensive income

We do not believe that there should be a single statement of comprehensive income as such a statement would further obscure important information with undue focus being placed on the bottom line. We understand that the Boards' proposal is to take the information currently contained in the two statements, subject to other changes introduced by the proposals, and bring it together onto one page rather than present it separately on two. We strongly question what the benefit for users would be of such an approach.

Significant costs of proposals

We believe, and this has been supported by the experience of our five field testers, that the Boards' proposals will generate high implementation costs to be borne by preparers, both one-off costs (for example, to adapt IT systems) and recurring costs (for example, time spent generating the reconciliation schedule).

Therefore, we encourage the Boards to carefully consider the cost – benefit ratio of the final standard in relation to each aspect of the future reporting model. Furthermore, the Boards will need to take into account the fact that the discussion paper will apply to all companies reporting under IFRS and not just for the consolidated accounts. We encourage the Boards to keep this in mind when elaborating their final proposal.

Prioritisation of the Boards' projects

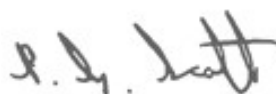
In the light of the significant concerns expressed above, which we have validated through our field testing experience, we encourage the Boards to review the priority assigned to this project. There are currently many key projects being run in parallel by the Boards, such as the fair value measurement project, the insurance contracts project and the Conceptual Framework, all of which we believe should be completed first. There are also many higher priority challenges to financial reporting being presented currently by the financial crisis. We believe that standards that address measurement issues must be prioritised over presentation issues and, accordingly, we do not see financial statement presentation as a "high priority" project.

As stated at the beginning of this letter, European insurers are very committed to have an active dialogue with the Boards on this project. We are available to discuss with you any issue covered in this letter or related to financial statement presentation in the future. Do not hesitate to contact us should you need any additional information.

Yours faithfully,



Alberto Corinti
CEA Deputy Director General /
Director Economics & Finance



Philip G. Scott
Chairman
European Insurance CFO Forum

Preliminary Views on Financial Statement Presentation

Appendix 1 - Questions for respondents

Chapter 2: Objectives and principles of financial statement presentation

1. Would the objectives of financial statement presentation proposed in paragraphs 2.5–2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

We believe that the three objectives are, in theory, interesting and appropriate. In general, we recognise that the application of those objectives is likely to benefit users of financial statements. However, we are concerned about their application. Indeed, for those objectives to add value to users, it is fundamental that they are applied in a pragmatic manner and take cost benefit assessment into consideration. It is important that management is allowed to use judgment in their application. We believe that the current reporting requirements should already achieve those objectives to a large extent.

COHESIVENESS

When applying the cohesiveness principle, the Discussion Paper states that management should firstly classify items in the Statement of Financial Position (“SFP”) and then this balance sheet vision should be applied in a cohesive way to the other statements. We note, however, that not all businesses are managed on the basis of assets and liabilities on the SFP. Accordingly we do not believe that this is necessarily an appropriate methodology as the relative importance of each primary statement depends on the business of the company and also on how management drives the business (e.g. focusing instead on operating profit for a service company which has few assets and liabilities).. Therefore, the starting point could be different for each company (as opposed to always being the SFP as prescribed in the DP). In addition, each primary statement has its own objectives and those should not be impacted by inappropriate changes in the statement's layout.

We believe that the objectives of each statement and the consistency of data disclosed within each primary statement are more important and should not be overruled by the cohesiveness across statements. Indeed, primary statements and notes are put together to form the complete set of data. The constituent parts have their own objectives and contain some specific information. We support the concept that financial statement presentation should be initially based on these principles. However, we recognise that as a secondary objective each individual statement should disclose information as consistently as possible with the others.

The extent to which cohesiveness should be applied should depend on the particular line item under consideration. For certain line items, such as ‘goodwill’ and ‘change in value of goodwill’, the cohesiveness is easy and natural to apply. For other line items, cohesiveness between statements could be improved by disaggregating some line items. However, for other balances such as debtors or creditors (for insurers, for example, insurance receivables or payables), we believe that the added value would be very limited.

DISAGGREGATION

Similarly, we acknowledge that the disaggregation principle adds value to the financial statements. Again, we support the proposal that management should be allowed to apply this principle with judgment. Otherwise, the number of line items in the primary statements, coupled with the need to add sub-totals when necessary, will lead to lengthy financial statements which could prove to be confusing for users.

LIQUIDITY AND FINANCIAL FLEXIBILITY

We generally support this objective in financial reporting. However, this objective is too broad (going beyond what we can deliver) for this project. We believe that this type of information should be part of management commentary, not only being quantitative in nature and being based on prospective (and not just retrospective) data.

The DP proposal does not reach this objective for our industry; for example the one year CFS does not match the operating cycle of insurance companies

FIELD TEST FEEDBACK: Field testing proved the need for a very high level of disaggregation to allow full cohesiveness. As a result, the primary financial statements would become very lengthy and present a significant volume of data diluting the useful information. The DP would not meet its main overall objective of more useful financial statements to users.

2. Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

We believe that the split between business and financing activities provides more decision useful information. We consider such a split to be helpful for users to differentiate in the financial statements what is generated by mainstream business separately from how the business is funded. Further disclosure would allow companies to show whether growth is funded externally or internally.

In the current format of financial statements, when this information is not directly available, it is often provided separately by preparers on a voluntary basis as some users (e.g. analysts and credit rating agencies) consider this key information for their purposes.

3. Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52–2.55)? Why or why not?

Balances and transactions with shareholders are fundamental figures for companies. We believe that the current reporting requirements for equity are adequate and we do not see the need to modify them. Therefore we support the DP proposal.

We note that the DP's requirement related to the presentation of balances and transactions with shareholders across the three primary statements does not meet the objective of cohesiveness. However, the pragmatic application of the cohesiveness principle that we propose in Q1 would allow consistency in the presentation of balances and transactions with shareholders between the primary statements. Our proposal on how to apply cohesiveness would also help achieve the stewardship objective of the Board's conceptual framework project.

4. In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71–2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

We support the proposal made in the discussion paper that assets and liabilities relating to discontinued operations (based on current IFRS definition of "discontinued operations") should be presented in a separate section. We also believe that "held for sale" items which do not meet the definition of "discontinued operations" should be presented in a separate line within the categories (operating, investing, financing) in which the assets or liabilities were originally allocated. The separate disclosures for those two items helps the users of financial statements identify the continuing elements in each statement that will be the source of future cash flows rather than those resulting from discontinued operations.

5. The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

We agree that the management approach to classify the items in the statements will provide the most useful information to users of financial statements on the basis that best reflects the way the asset or liability is used within the entity.

We fully support the management approach. First, it is consistent with the Boards' approach to segmental reporting. Segmental reporting standards introduced the concept of a management approach which is comparable to the DP. Therefore, the DP proposal seems to provide continuity with the Boards recent conceptual thinking in other standards. Each entity will explain in the accounting policies the rationale behind its classification of items in the different sections. This disclosure should be a suitable safeguard to avoid arbitrary classification by management.

Our understanding is that a change in the way management defines the content of a section or a category would be a change in accounting policy and would have to be retrospectively implemented in the financial statements (as well as explained in the accounting policy note). However, we strongly believe that a change in an asset or a liability classification (following, for example, a change in use of this asset or liability) would not be considered as a change in accounting policy and therefore would only apply prospectively. It may however require footnotes depending of the significance.

FIELD TEST FEEDBACK: Field testers have identified areas where the way an item is used by management could change over time and therefore its classification could change too. For example a derivative hedging financial liability not qualifying anymore for hedge accounting may need to be reclassified to operating; similarly, a joint venture classified by management in investing would need to be reclassified to operating if management decides to develop its activity as part of the company's operating strategy Restating financial statements from prior periods would not reflect the effective use of these items in previous years.

The management approach is probably most relevant to split the company's operations into sections and categories. Management may base their judgment on the use of a criterion like "core/central" activities versus "non-core. We believe that the definition of what is core/non-core should be left to management. Any specific or prescriptive guidance would therefore be arbitrary and inappropriate.

FIELD TEST FEEDBACK: During the classification of line items into categories and sections, field testers' management based some of their choices on the "core" and "non-core" criteria. However the meaning of "core" and "non-core" is not always straightforward and should be tailored to what is the most appropriate for each company.

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

We believe that the benefits of the management approach outweigh the perceived potential for reduced comparability.

We believe groups with similar business will tend to classify items in a similar manner and industry consensus is likely to emerge over time. We support that this convergence is left to the result of evolution of best practice rather than imposed by a standard. It is expected that industries could take initiative to foster convergence once the future standard has been implemented for a few years.

FIELD TEST FEEDBACK: Field testers have reached a similar classification of their line items in the various categories and sections despite having different product mix and despite the grandfathering of existing GAAP accounting policies for insurance contracts under IFRS4.

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

We agree with the concept of presenting assets and liabilities separately across sections. However, the objective of the primary financial statements is not to provide users with key performance indicators ("KPIs"). Generally, KPIs are non-GAAP information and therefore defined by management (as opposed to by accounting standards). Each company has a

view on how to calculate their key ratios. Currently few KPIs can be calculated directly from data available in the primary statements (users currently consider the notes more in this context rather than the primary statements).

If we disaggregate the financial statements to the level at which the users are able to calculate all KPIs, financial statements will become very long and confusing (refer to our comments made in response to Q1).

7. Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

We support that the classification should be done at the segment level. Therefore, similar assets may be classified differently in two different segments depending on how management views its role and function inside each segment.

8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

We agree that it may be necessary to review IFRS8 in light of the final version of the FSP. However we do not support any increase in IFRS8 disclosures requirements (in particular, we do not believe that the scope of IFRS 8 should be extended, intentionally or inadvertently, as a result of the FSP standard). The implementation of the current IFRS8 disclosure requirements already leads to lengthy tables (secondary allocation is currently simplified; if the level of disaggregation of the secondary allocation is increased, this would lead to lengthy tables). In addition, IFRS 8 disclosures are based on what management uses internally. If management does not split data into categories in their internal reporting, then the Boards should not impose this disaggregation without changing the fundamental principle underpinning IFRS8.

9. Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31–2.33 and 2.63–2.67)? Why or why not?

We believe that the operating and investing categories are appropriately defined in the DP. We would note that the label ‘investing’ is not self-explanatory and could be confusing, especially for financial services companies holding investments as part of their operating activities.

FIELD TEST FEEDBACK: Field testers tend to put most items in operating and have nothing or very little in investing. However, we believe the investing category is worth retaining.

10. Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56–2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?

We agree with the definition of the “financing section”. However, we question why financing assets and liabilities are restricted to IAS 32 items. If management sees a certain asset (or liability) as financing while it does not qualify as a financial asset (or liability) such as leasing transactions, this restriction contradicts one of the core principles of the DP,

the management approach. We do not understand why the Boards want to restrict the management approach in this area.

Chapter 3: Implications of the objectives and principles for each financial statement

11. Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) *What types of entities would you expect not to present a classified statement of financial position? Why?*

We welcome the recognition in the DP that the split long term versus short term would be less relevant for certain entities. We believe that insurance companies are a good example of such entities because an insurer's operating cycle cannot properly be defined or split between short term and long term maturities. Therefore, we, as insurance companies, prefer the use of a liquidity order in the SFP as it provides more useful information to users. This is also in line with the current approach which is familiar to users and is well accepted as current practice.

FIELD TEST FEEDBACK: All five field testers have classified their assets and liabilities by order of liquidity as they believed it was more reflective of the way their businesses are managed.

(b) *Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?*

No, this choice should be left to management and, when liquidity order is chosen, it should be explained in the accounting policies.

12. Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

We believe that most cash equivalents owned by European insurers are by nature very close to cash. For this reason, they are managed together and therefore we believe that in the SFP, cash and cash equivalents should be presented together (with the split potentially disclosed in the notes).

In addition, a "pure cash" balance as an opening and closing balance in the CFS does not provide useful information to users of financial statements as most insurance companies tend to extensively use cash equivalents in order to generate enhanced returns, consistent with considering volatility of return, credit worthiness and liquidity. In addition, it would be misleading to exclude bank overdrafts from the cash position used in the CFS. Many companies have overdrafts shown as creditors and the cash position used in the CFS should be assessed taking into account all those bank accounts (regardless of whether the balance is positive or negative). For the purposes of SFP, such balances should continue to be presented separately.

FIELD TEST FEEDBACK: Field testers manage cash and cash equivalents together. These field testers currently give a clear definition in the notes to the financial statements of what the criteria are that they use to define the content of "cash equivalents". For field testing purposes, most field testers used a cash position that included the bank overdrafts for their recast CFS.

13. Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

The information is useful and should be in the financial statements. However, we believe that this fits best in the notes (as it is already done under current reporting requirements) as we fear that bringing too much disclosure type information onto the face of the primary statements would be confusing for users.

FIELD TEST FEEDBACK: The field testers who have recast their financial statements on this basis have found a considerable lengthening of the primary statements to incorporate all the bases of measurement. This duplicates the information already in the notes and makes the primary statements more difficult to understand.

14. Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

We do not believe that there should be a single statement of comprehensive income as such a statement would lead to undue focus being placed on the bottom line. We understand that the Boards' proposal is to take the information currently contained in the two statements, subject to other changes introduced by the proposals, and bring it together onto one page rather than present it separately on two. We strongly question what the benefit for users would be of such an approach.

Nevertheless, if the Boards decide to merge the two statements, it is of utmost importance to ensure that the 'net income' number is clearly identified and separated from other comprehensive income. This figure is one of the key elements by which companies communicate to the markets.

We believe that there should be debate about OCI items but the best place for this discussion is not as part of the FSP project but instead in individual projects such as those relating to IAS19 or IAS39, for example.

For these reasons, at this stage we support keeping the two statements separate.

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

Allocation of OCI items to categories is not seen as key information by preparers and, as far as we are aware, has never been mentioned by users as missing information.

FIELD TEST FEEDBACK: Field testers found that some OCI items relate to different categories. For example, cash flow hedges may relate to financing and operating. Therefore disclosing the corresponding category to which OCI items relate on the face of the SCI may require further line duplications in the SCI.

16. Paragraphs 3.42–3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

We are of the opinion that the format of a statement of comprehensive income should be the choice of the reporting entity. Whether the most appropriate format is by function or by nature (or both) depends on the way the business is managed, the organisational structure, industry type etc. We support the proposal to use a management approach to decide whether to disaggregate by function or nature and, whichever is chosen, to give further detail of the other in the notes on relevant items when considered useful by management or required by local jurisdiction. We refer to our response to question 1 for our comments on disaggregation.

17. Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

We support the proposal that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements, as proposed in this DP.

We would, however, draw the Boards' attention to an issue raised by paras 3.61 and 3.62 of the DP which say that the income tax expense or benefit should continue to be charged or credited to equity where applicable. Our understanding of IAS 1 and the use of the SOCE is that the latter should only be used for transactions with equity holders and therefore we cannot see circumstances where tax credits or charges would be permitted in the equity category of the financial statements. For example, where tax relief is given on coupon payments on equity instruments which qualify as Tier 1 capital, this credit is currently required to be recorded in the SORIE (and therefore potentially in OCI section of the SOCI) because it is a transaction with the tax authorities and not the equity holders themselves, rather than being able to "match" the coupon payment in the SOCE. We would welcome further guidance on this matter.

FIELD TEST FEEDBACK: Although it might be argued that users would like more information on the tax impact of individual items of income or expense, field testers would be unable to do this because they do not hold such a detailed level of information in their accounting records.

One particular problem faced by the field testers concerned the treatment of policyholder taxes in their businesses in the UK, Ireland and Australia. In addition to paying tax on shareholders' profits, life businesses in these countries pay tax on policyholders' investment returns ("policyholder tax") on certain products at policyholder tax rates which are set separately from corporation tax rates on shareholder profits. Although this is not a shareholder tax, IAS 12 requires policyholder tax to be accounted for as an income tax and therefore to be included in the total tax expense. Because this distorts the pre-tax profit figure (often an important KPI), some insurance companies show separately the amounts of policyholder tax, to provide a more meaningful measure of the tax they pay on their profits. They therefore show separately a profit before tax attributable to shareholders' profits, which is calculated after accounting for the policyholder tax. Furthermore, in any calculation of a non-GAAP operating profit, policyholder tax is treated as an expense. We are concerned that this flexibility will be lost in the DP's proposals and would propose that policyholder taxes should be classified in the operating category if this is how management perceives their nature.

18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

We believe that the proposed split of foreign exchange gains and losses across categories could add useful information. However, in order to allocate forex effects to categories, preparers have to isolate forex effects at item levels in order to add them up to generate the total amount of the category. Tracking forex effects at transaction level is not currently done by preparers and, if required, may necessitate significant system developments.

Furthermore, presenting gains and losses on foreign currency transactions in different sections and categories may lead to natural hedge relationships being presented in separate sections or categories. This may lead to a higher perceived volatility where there actually is none.

FIELD TEST FEEDBACK: Field testers were unable to track forex at this level given their existing information systems and processes.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

As expressed above, we believe that this proposal would require IT developments which would generate additional costs. We are unsure that the added benefits for users will justify the incremental costs.

19. Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

- (b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?*
- (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?*

As far as insurance companies are concerned, we believe that the Cash Flow Statement, presented using the direct or the indirect method, has limited value to help users of our financial statements predict future cash flows. Most insurance business has a life cycle which is longer than one year. We understand that users not only use financial statements but also other sources of information such as management commentary to predict future cash flows. Indicators used to assess future cash flows include, for non-life business, claims ratios and payment patterns over a number of years, and for life business, a good understanding of reserving assumptions, future investment returns, and the nature of business underwritten by the company.

Without some sort of additional breakdown or segmentation, the cash numbers presented in the CFS are of little value for users especially for predictive purposes. This is particularly true in circumstances where cash is held for third parties in addition to cash generated or held for shareholders. For example, in our industry, we understand from analysts that what they would prefer to see is a split of cash flows between shareholders and policyholders (which could require substantial changes to systems to produce the information) in order to predict future shareholders' cash flows. Accordingly, in order to assist analysts, most insurance companies already provide some information outside the financial statements in relation to future cash flows through changes in "free" shareholders funds availability through their non-GAAP embedded value reporting.

Regarding the method used to present the CFS, the direct method is nearly impossible to produce using IT systems currently in place in insurance groups (especially if we consider the legacy of acquisitions and mergers on IT systems) without some form of shortcuts. Indeed, at several stages of our business balances are netted and disclosed on the face of the SFP as current accounts with third parties (for example, transactions with brokers and agents, co-insurance and reinsurance). Information received by companies provides the detailed information about premiums, claims or commissions comprising the transactions with the intermediaries. Consequently, insurance companies have the necessary data to prepare a SCI. However, balances with intermediaries are settled on a net basis at regular points in time. Therefore, in order to prepare a direct CFS in accordance with the cohesiveness principle, insurers would have to perform a gross up of these net balances and transactions which could be arbitrary and unlikely to be relevant for users.

FIELD TEST FEEDBACK: None of the field testers had the required information available to prepare a pure direct CFS. All field testing companies have tried the 'indirect-direct' method, which involves creating a CFS from the SCI and adjusting for SFP movements. This exercise has proved to be quite complex, required a number of arbitrary gross-ups and assumptions and remains costly (in time terms). Furthermore, IT systems developments would be necessary to secure the process for closing, implying potentially significant costs. Benefits for users still need to be assessed.

In this context, we think the Boards should carefully consider the merits of changing the current rules on cash flow and we strongly believe the current indirect method should still be allowed.

20. What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81–3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

As mentioned in the previous question, the implementation of a direct cash flow statement for insurers implies significant systems changes not only at the company level but also at third parties (brokers, agents, co-insurers and re-insurers). Those changes are likely to generate high costs and consume a lot of human resources. We question the necessity of companies being forced to spend vast amounts on systems changes with limited foreseen added value. We urge the Boards to consider the costs/benefits of their proposals and to demonstrate the added value of such an approach to users of insurance companies' financial statements.

21. On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and

the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

We believe that the extent to which the effects of basket transactions are allocated to sections and categories should be left to management, depending on the type and significance of the transaction as well as management's views as to how the transaction affects the company. In some cases, companies may choose to allocate it to the various categories of the SFP and SCI but, in others, it may be presented as a separate line item of the financial statements. Allocating basket transactions may imply significant costs for the company. It is therefore important that management decide to allocate or not on the basis of the materiality of the transaction and on the cost-benefit of such an allocation. The standard should not required nor prevent any particular presentation.

Finally, in the case of an acquisition, the classification of the basket assets and liabilities used by the seller should not be an indicator of the classification that the acquirer would follow, as it will depend on the acquiring company management's view.

Chapter 4: Notes to financial statements

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

As stated in our answer to question 11, we do not believe that presenting our assets and liabilities into short term and long term categories is useful for users of our financial statements. For the same reasons we do not believe that the information required by paragraphs 4.7 and 4.11 of the DP would improve the notes to our financial statements.

We oppose the fact that, if we use the liquidity order in the main statements, a maturity analysis for the entire balance sheet is still required in the notes, as this is irrelevant. Indeed, if this information is not deemed useful when preparing the SFP, we question why it would be relevant in the notes.

Analysing by contractual maturities does not make sense for insurance companies because of the nature of the business. This information would be based on pro rata and assumptions departing from the way insurers actually manage assets and liabilities. For example, many of the assets insurers invest in to cover insurance liabilities do not have contractual maturities, requiring an arbitrary allocation across the maturity table. Insurance companies have asset-liability management (ALM) processes which are key for management to run their businesses. However, this ALM is done at a global level. When a specific claim incurs on a specific contract, there is no pre-established scheme inside the company to decide which specific asset should be sold in order to pay out the claim. We believe that an arbitrary allocation in the maturity table would result in very little benefit for users.

In particular, any analyses of maturities below twelve months would be meaningless in the context of the longer term nature of our businesses.

We currently provide some information on maturities (both expected and contractual) for a large part of our balances in the SFP (under IFRS4 and IFRS7). We do not believe that this information requirement should be extended to other balances, as it would not add value for users. Any extension of existing disclosure requirements should not be discussed in the FSP project but rather in the review of each relevant standard.

23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:

(a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

- (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.*
- (b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.*
- (c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44-4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.*

As we stated in our response to question 19, we do not believe that a cash flows statement provides useful information to predict future cash flows for insurance companies. Therefore, we do not believe that disaggregating cash flow positions into columns will increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows.

In addition, we are concerned that this schedule requires companies to disclose a vast amount of data over several pages, much of which is not relevant, and is likely to confuse the reader. For example, it is likely that very significant amounts will go through the accruals column C, many of which would require supporting explanation if the reconciliation is to be of any use to readers (see also question 26 below). This emphasises the fundamental difference between cash flows during a long operational cycle and a single year income statement, giving rise to large numbers (quantity and quantum) of reconciling adjustments.

Therefore, we do not support that this new reconciliation schedule becomes a required note in the final standard. For many balances in the SFP, we already disclose the roll forward year on year. We could improve these roll forward disclosures by giving more information on large non-cash items and remeasurements where appropriate and build a link with the CFS flows (and not only link SCI to SFP).

FIELD TEST FEEDBACK: The schedule has proved complex to build and ever more complex to analyse as large figures are shown in and out in different columns, especially in column C. The result of the field test is a very long and dense schedule. The volume of data contained in the schedule makes it difficult to understand as relevant information is obscured. Lengthy explanations would be needed to explain some of the large numbers.

In addition, the schedule has been time consuming to prepare for this recast exercise. We expect that the preparation of this schedule on a recurring basis would imply additional costs.

24. Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

We do not believe that further disaggregation of the changes in fair value should be dealt with in this project. There should be a proper debate in the context of the revision of the relevant standards (e.g.: IAS39), in which we would actively engage.

It is important to note that we already disclose a great deal of information on balances measured at fair value in the notes (split into the three levels of the hierarchy, transfer between levels, etc). We do not believe that this information should be disclosed as part of the primary statements.

25. Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10-B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

The idea of reconciling from one balance sheet to the other is appealing because many other standards require such a reconciliation for certain assets and liabilities and this is how many insurers collect information internally to populate

the current required disclosures. However, we recognise that this is not possible for the more liquid financial assets and liabilities (e.g. debtors), and selective reconciliations go against the cohesiveness principle across the primary statements. It would therefore be costly and time-consuming to prepare such a reconciliation for all balance sheet items without a great deal of netting and estimating along the way.

In our response to question 23, we have suggested that rather than requiring the reconciliation schedule or one of its alternatives as expressed in the DP, we would prefer to build on existing disclosure requirements, in particular the roll-forward of some balance sheet items to give more information about large cash and non-cash movements.

26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

- (a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?*
- (b) APB Opinion No. 30 Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?*
- (c) Should an entity have the option of presenting the information in narrative format only?*

As expressed in the DP, we acknowledge that there is currently no bright line to identify infrequent or unusual items in the IASB literature. Nevertheless, we believe it is important to give information about large unusual and infrequent events or transactions somewhere in the financial statements. We believe that the best place to do so would be in a separate note or in the management commentary rather than as a memo column to the reconciliation schedule.

FIELD TEST FEEDBACK: The amounts going in and out of column C of the reconciliation schedule (not necessarily infrequent or unusual items) were often of such significance that field testers believed that there would be a need to provide additional information in order to anticipate questions from users. A memo column would not be sufficient to give users the necessary information as it could require several pages of additional explanations.