



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

30 September 2014

Andrea Pryde  
Technical Principal  
International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

Dear Andrea Pryde,

The members of the IAA Insurance Accounting Committee would like the opportunity to discuss three important issues relating to Contractual Service Margins:

- a) Basis for applying the tentative decision regarding releasing the CSM.

We agree that the CSM should be released over the projected life of the portfolio; however, the release for each year should not be equal. To treat each year equally would not recognize that:

- Releasing CSM evenly over time over the life of the portfolio, in conjunction with the requirement to accrue interest on the CSM balance, could produce a release pattern that deviates significantly from the expected service provided for many important types of insurance contracts.

In September this year the Board tentatively accepted non-level release for the PAA. We believe it is important that both the PAA and BBA approaches allow similar release principles as the PAA is meant to be an approximation for the BBA.

- Since the cash flows associated with the basic risk events [claims] are discounted to determine the CSM, to maintain consistency between the risk events and the release pattern for the CSM the basis for releasing the CSM should also be discounted.

- b) Issues generated when pricing regulations require subsidies between gender (e.g., mandatory sex neutral rates) or when pricing involves subsidies for practical reasons (fixed rates by age bands, size bands...) within a product.

Estimating the CSM separately for “profitable” contracts from “unprofitable” ones in such situations may create an artificial loss which would not provide a faithful presentation of the economic reality. Pricing presumes that more than one contract is issued, that is, in the case of uni-gender rating, contracts are sold to both males and

females. This artificial constraint on a contract-basis would show a lower or a zero CSM for the less or unprofitable contracts and a higher CSM for the more profitable contracts. Instead of determining CSM at the contract level, it is more appropriate to use a higher level of aggregation, accompanied by guidance as to what constitutes an appropriate level of aggregation.

There are other situations we could discuss where similar problems occur.

- c) The relevance and practicalities of using a locked-in rate for accreting the interest and discounting changes in estimates for CSM adjustments when OCI is not elected.

The IASB has tentatively decided to require the use of a locked-in discount rate in the accretion of interest and changes in estimates for the CSM. This decision aligns the treatment of CSM with OCI mechanics. However, if OCI is not elected, this may make it quite difficult for the users to understand the effect and the relevance of the locked-in rate. This approach doesn't provide useful information for the interest expense when all other interest expense and income is based on current estimates. The amount of the change is relevant only if the discount rate is also current. In our comment letter to the 2013 ED we stated and here affirm "we believe the CSM should reflect the impact of any change in estimates affecting future profitability of the contract" and "we believe that for subsequent measurement a forward looking approach ... should be allowed".

We also note that if the locked-in rate is required for the CSM and if the entity elects FVPL for the presentation, it is the only item using this rate. As the staff's recommendation in the March 2014 AP2E noted, which the IASB subsequently tentatively accepted, the entities should be allowed to consider the factors contributing to their own cost-benefit analysis. The decision to require the use of a locked-in rate seems to remove the possibility of considering a cost-benefit analysis in this case.

In some cases, each of these issues may contribute to a financial statement that we believe does not faithfully represent the financial position of an insurer.

A meeting at your earliest convenience would be much appreciated. We will contact you in the coming days to determine a common time suitable for both of us.

Thank you in advance for the consideration that you will give to our request to meet in person or by phone and discuss with you.

Sincerely,



Francis Ruygt  
Chairperson of the IAA Insurance Accounting Committee