



IASB's ED/2013/7 Insurance Contracts

The ABI's response to the EFRAG's Draft Comment Letter

1. The ABI is the voice of insurance, representing the general insurance, protection, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK and for investments amounting to 26% of the UK's net worth. It represents its members both as preparers and users of financial statements.
2. We are grateful for the opportunity to comment on the EFRAG's Draft Comment letter on the IASB's exposure draft, *Insurance Contracts*.

ABI comments

3. Our overall view of the IASB's exposure draft (ED) is that, although the ED reflects some significant improvements compared with the previous ED, it fails nevertheless to get key aspects of measurement and performance presentation right. Indeed, as currently drafted, it would not work for substantial parts of UK insurers' business: for many contracts such as UK annuities, because of the obligation to use the OCI, or for UK with-profits contracts, because of intrinsic flaws in the mirroring approach and its failure to recognise how profit is earned through these contracts.
4. Further fundamental improvements are needed to the ED to avoid distorting insurers' results. These improvements changes include
 - removing the mandatory requirement to use other comprehensive income (OCI), which would make performance results much more difficult for investors to understand without a substantial increase in the use of non-GAAP measures. This would enable the profit and loss account to reflect all related movements in assets and liabilities, and avoid significant accounting mismatches. *We strongly do not agree with the EFRAG's support of the ED;*
 - not treating participating contracts separately from other contracts by introducing a 'mirroring' approach which is difficult to understand and complex to apply, and requires arbitrary allocations that may have performance presentation implications. *We agree with EFRAG;*
 - instead recognising participation in asset returns as a form of service provision that should be reflected in adjustments to the contractual service margin that is fully unlocked to reflect changes in future estimates concerning the provision of services, as for other insurance contracts. This is essential to ensure that profit that is earned from the insurer's provision of services under with-profits contracts is taken to P&L, whilst avoiding the P&L reflecting the volatility in unearned changes in asset values that, in substance reflect projected future fees

for which it would be inappropriate to take credit. It is essential to enable the economics of the insurer's obligations and performance of these contracts to be faithfully presented. *We strongly welcome the EFRAG's recognition of the potential need for an alternative approach and we support its further development,* and

- also removing a mandatory requirement to take changes in all options and guarantees to profit and loss. *We agree with the EFRAG;* and
- removing the requirement to present earned premium revenue, as we think this does not help users of life insurers' accounts and is complicated and costly to comply with. We consider that a summarised margin approach is better for life insurance contracts in communicating the sources of earnings. We support, however, the ability of non-life insurers to present revenue using the premium allocation approach or, where the eligibility criteria for that approach are not met, the earned premium approach. *We note that the EFRAG does not have a preliminary position on this.*

5. Our other main concerns are that:

- the disclosure requirements may be over-burdensome and misleading, particularly the confidence interval risk adjustment, may give an illusion of comparability between insurers and so not assist the investor;
- effective dates for IFRS 4 and IFRS 9 need to be aligned to avoid having performance reporting that is likely to change significantly twice in reasonably quick succession and may be badly distorted in between.
- a form of further due process is needed before the IFRS can be finalised. We recommend that, at a minimum, a staff or review draft that reflects all the Board's re-deliberations in the light of ED responses be placed on the IASB website for at least a year and all comments arising be considered further. This will be necessary to ensure that the final IFRS is workable and delivers a clearly favourable cost/benefit balance in the presentation of insurers' results.

6. Appendix 1 sets out our comments on the EFRAG's draft comments on the IASB's specific questions.

7. This response letter highlights the main concerns of UK insurers. We also support the joint CFO Forum/Insurance Europe response to the IASB's ED and their comments on the EFRAG's draft comment letter.

Association of British Insurers
October 2013

Insurance Contracts
The ABI's response to the IASB's ED/2013/7

ABI responses to exposure draft questions

IASB's question 1 – Adjusting the contractual service margin

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if differences between the current and previous estimates of the present value of future cash flow, if:

- a. differences between the current and previous estimates of the present value of future cash flows related to future coverage and other future services are added to, or deducted from, the contractual service margin, subject to the condition that the contractual service margin should not be negative; and*
- b. differences between the current and previous estimates of the present value of future cash flows that do not relate to future coverage and other future services are recognised immediately in profit or loss?*

Why or why not? If not, what would you recommend and why?

1. We agree with the EFRAG that the contract service margin (CSM) should be unlocked both for changes in both in the expected cash flows associated with future coverage or services and the related risk adjustment. In our view, this is consistent with the principle that CSM represents profits to be recognised in future periods.
2. However, we do not consider that the ED applies the principle far enough, with the result that performance reporting would be distorted. That is, we think that, for a UK with-profits contract, participation in asset returns is a fundamental part of the contract though the provision of services by the insurer in a manner that is substantially akin to those provided under unit-linked and other participating contracts. Accordingly, as we explain further under the IASB's question 2 below, we consider that it is only if the CSM is adjusted in relation to varying asset returns that an insurer's service performance for participating contracts can be faithfully represented.
3. Our other comments about the CSM are as follows:
 - the provision of options and guarantees is integral to the services provided in contracts with participating features. In principle, we see no reason why changes in expected cash flows arising from options and guarantees for these contracts should have to be taken direct to profit and cannot be taken to the CSM. However, we would like to stress that

having a fully unlocked is not in principle dependent on the treatment of options and guarantees;

- the proposed requirement to use a locked-in interest rate for the CSM in the balance sheet is inconsistent with the requirement to use a current interest rate for discounting the cash flows in the balance sheet. This would be a very complex and onerous requirement to apply. We consider that the interest rate for accreting interest in the CSM should be aligned to that for the cash flows;
- the ED's paragraph 30 has the effect of prohibiting the reversal immediately through profit and loss of a prior year's adverse change in cash flow estimates that had been taken to profit and loss. Instead, the reversal would be taken wholly to create a new CSM. We do not agree. The effect could be to misrepresent the profitability of the contract.
- although the ED does not specify a unit of account for adjusting the CSM, paragraph BCA 113 implies that the unit of account would be lower than is used by insurers to manage their contracts in practice. This could result in considerable operational complexity that increases costs without clear benefits.
- We agree also with the IASB's approach generally in (paragraph 32) in not prescribing the basis of recognition of the CSM in profit and loss other than relating the transfer of contract services

EFRAG's question to constituents

Do you believe that the distinction between changes in estimates relating to future coverage or other future services and experience adjustments would involve a significant amount of judgment? If so, do you believe that the proposed guidance provides sufficient explanation on how entities makes this distinction?

4. We consider that the IASB's whole model for insurance accounting, based as it is on expectations, involves judgement. We do not see the distinction as giving rise to significant extra judgment or of judgement that is somehow different in nature. We consider that there are greater benefits to users in understanding insurers' performance better.

IASB's question 2 – Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items

If a contract requires an entity to hold underlying items and specifies a link between the payments to the policyholder and the returns on those underlying items, do you agree that financial statements would provide relevant information that faithfully represents the entity's financial position and performance if the entity:

- a. *measures the fulfilment cash flows that are expected to vary directly with returns on underlying items by reference to the carrying amount of the underlying items?*

- b. *measures the fulfilment cash flows that are not expected to vary directly with returns on underlying items, for example, fixed payments specified by the contract, options embedded in the insurance contract that are not separated and guarantees of minimum payments that are embedded in the contract and that are not separated, in accordance with the other requirements of the [draft] Standard (ie using the expected value of the full range of possible outcomes to measure insurance contracts and taking into account risk and the time value of money)?*
- c. *recognises changes in the fulfilment cash flows as follows:*
- i. *changes in the fulfilment cash flows that are expected to vary directly with returns on the underlying items would be recognised in profit or loss or other comprehensive income on the same basis as the recognition of changes in the value of those underlying items;*
 - ii. *changes in the fulfilment cash flows that are expected to vary indirectly with the returns on the underlying items would be recognised in profit or loss; and*
 - iii. *changes in the fulfilment cash flows that are not expected to vary with the returns on the underlying items, including those that are expected to vary with other factors (for example, with mortality rates) and those that are fixed (for example, fixed death benefits), would be recognised in profit or loss and in other comprehensive income in accordance with the general requirements of the [draft] Standard?*

Why or why not? If not, what would you recommend and why? Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

5. We do not agree with the ED's requirements to identify a specific type of participating contract that has contractual linkages to assets held, and then to separate and measure differently fulfilment cash flows that vary directly or indirectly with particular underlying items. This is because:
- participating contracts are not managed by insurers by differentiating between those with contractual linkages and those without, or between directly and indirectly varying returns, and performance presentation does not benefit from making these distinctions;
 - making any such distinctions is operationally complex and, we think, requires quite arbitrary allocation decisions to be made. We have shared our concerns already with IASB staff and are still not sure how to apply the ED's requirements;

- we consider that any form of accounting for participating contracts needs to recognise the basis in which the insurer derives its profit by benefiting, as does the policyholder, in the asset returns; and
 - we cannot see an economic distinction between the insurer participating in the performance of assets via an unbundled asset management fee and via a participating feature.
6. We therefore do not agree with the ED's proposal to treat participating contracts as an exception to the general building block approach that requires a mirroring approach. We support instead an alternative approach. Further information is given in the joint CFO Forum/Insurance Europe response about the principles of an alternative approach to accounting for participating contracts, together with illustrative methodologies on how the principles may be applied for accounting both at fair value through profit and loss and through other comprehensive income.

EFRAG's questions to constituents – please provide your answers considering EFRAG's recommendation in our response to question 4 and in the context of the currently proposed limited amendments to IFRS 9 in respect of classification and measurement

Do you believe the alternative approach described in Appendix 5 will lead to financial statements that provide relevant information that faithfully represent the entity's financial position and performance for contracts with asset dependent cash flows? Why or why not? If not, what would you recommend and why? Please consider whether the alternative approach eliminates or reduces accounting mismatches while reporting consistently contracts with similar economic features (i.e. contracts with asset dependent cash flows). Do you support the alternative approach wholly or partly? Please explain, which parts you support and which you do not?

7. We welcome the EFRAG's recognition of the need to improve the ED's requirements for reporting on contracts with assets dependent cash flows. We agree with a number of aspects of the approach described in Appendix 5. However, Appendix 5 assumes the mandatory use of the OCI that we do not support, as we explain under question 4 below. By contrast, the articulation of the alternative approach given in the joint CFO Forum/Insurance Europe response is consistent with reporting under a fair value through profit and loss basis as well as with the use of the OCI.

Do you believe that for contracts with asset dependent cash flows, the effect of changes in financial assumptions should be accounted for in the contractual service margin resulting in a fully prospective contractual service margin? If so, why and how this should be done?

8. As above, we consider that any form of accounting for participating contracts needs to recognise the basis in which the insurer derives its profit by benefiting, as does the policyholder, in the asset returns. Accordingly, we agree that the CSM needs to be unlocked so that it reflects fully the profit that the insurer has not yet recognised in P&L.

9. We consider that accounting for changes in financial assumptions should be consistent for the financial assets and for the insurance liabilities.

Do you agree that interest expense should be recognised in Profit or Loss based on a yield as proposed in the alternative approach (please refer to paragraphs 21 – 25 of Appendix 5 for a description of the yield curve under the alternative approach)? Why or why not?

10. We agree with the application of the ED's paragraphs 25, 26(a) and 60(h) to identify the discount rate. We note that the EFRAG's interpretation of these requirements is bound up with its assumption that the OCI is to be used – the requirement for which, as we explain under question 4 below, we disagree.

What should be the pattern of release of the contractual service margin for contracts with asset dependent cash flows?

11. We consider that the CSM for these contracts should be recognised in P&L on the same principles basis as for other insurance contracts; that is, in accordance with the ED's paragraph 32, "in the systematic way that best reflects the remaining transfer of services that are provided under the contract".

Do you believe the alternative approach is operationally more or less complex than the IASB's 'mirroring approach'?

12. We believe that the alternative approach suggested in the joint CFO Forum/Insurance Europe response is operationally less complex than the ED's mirroring approach.

Do you believe that the alternative approach, or a variant thereof, would be conducive to understandable and useful information for investors and their advisors?

13. We consider that an alternative approach is necessary. This is because, in participating contracts, the insurer has no entitlement to any share in the asset returns before the policyholder participates in them on the basis provided in the contract and as subject to regulatory constraints. An alternative approach is therefore essential to enable the economics of the insurer's obligations and performance of these contracts to be faithfully presented to investors and their advisors.

14. We believe that, by contrast, the ED's proposals would distort the presentation of insurers' performance of participating contracts, including by reflecting in profit and loss considerable volatility arising from changes in asset values that may have no relationship with the returns that the insurer earns by providing services under these contracts.

IASB's question 3 – Presentation of insurance contract revenue and expenses

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial performance if, for all insurance contracts,

an entity presents, in profit or loss, insurance contract revenue and expenses, rather than information about the changes in the components of the insurance contracts?

15. We do not agree with a requirement to present earned premium revenue. We believe that very many life insurers, and their users, do not consider that understanding long-term performance is helped by presenting as current revenue an element of a premium arising from a contract that was entered into many years previously. However, we support the ability of non-life insurers to present revenue using the premium allocation approach or, where the criteria for that approach are not met, the earned premium approach.
16. We note that there has been little call from users for the kind of earned premium information that the IASB proposes, and we are not convinced that this kind of comparability with completely unrelated industries will assist users. Instead, we consider that most users' call for volume information is about new business, which can instead be provided through disclosure.
17. We support instead a summarised margin approach in the P&L for long-term insurance business. We consider that the presentation of changes in the components of those contracts communicates performance more clearly to investors.
18. The summarised margin approach also obviates the need to separate out the deposit components for long-term insurance business. This reflects better the way in which the cash flows are managed together in practice, and it avoids inevitable arbitrariness, undue complexity and cost in the allocation processes.
19. Nevertheless, we would not support the prohibition of earned premium revenue presentation. For some insurers, it would be an essential part of their communication with users. This particularly applies to general insurance business that has contracts and risks of a nature that do meet the ED's criteria for using the premium allocation approach.
20. Lastly, we strongly support nevertheless the retention of the premium allocation presentation approach for non-life business as widely as possible. That, again, is a crucial part of performance communication that has long supported metrics that are widely used by analysts.

EFRAG's questions to constituents

Do you believe that the investment component amounts would be difficult and costly to compute because they are not distinct and are highly interrelated with the insurance component with the insurance component?

21. We do. We think this likely often to be the case.

Do you believe that additional application guidance is necessary to determine these amounts on a portfolio level?

22. We do not think so. Although we have not evaluated the details of these proposals as fully, we generally prefer the ED to maintain a principles-based approach.

Do you believe that preparing and presenting revenue under the ED proposals would be difficult and costly?

23. We do. As above, we also consider that there will be little benefit to investors and their advisors to offset the extra costs

IASB's question 4 – Interest expense in profit or loss

Do you agree that financial statements would provide relevant information that faithfully represents the entity's financial performance if an entity is required to segregate the effects of the underwriting performance from the effects of the changes in the discount rates by:

- a. *recognising, in profit or loss, the interest expense determined using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows; and*
- b. *recognising, in other comprehensive income, the difference between:*
 - i. *the carrying amount of the insurance contract measured using the discount rates that applied at the reporting date; and*
 - ii. *the carrying amount of the insurance contract measured using the discount rates that applied at the date that the contract was initially recognised. For cash flows that are expected to vary directly with returns on underlying items, the entity shall update those discount rates when the entity expects any changes in those returns to affect the amount of those cash flows?*

Why or why not? If not, what would you recommend and why?

24. We do not agree. We consider this use of other comprehensive income (OCI) to be:
- appropriate solely where only simple debt securities are held to maturity to help economic matching of assets and liabilities over the longer term; but
 - wholly inappropriate otherwise, including:

- where more complex debt securities, equity, and commercial property and mortgages are held as well to enhance and balance returns, and where derivatives are used for better duration matching and to hedge currency risks, and these are not reflected in the OCI, and where investment portfolios are actively managed with realisations taken to P&L ; and
 - for short term business with long tail liabilities that are not managed through the asset/liability matching that the ED assumes.
25. A requirement for such inappropriate use of OCI will result both in the P&L and the OCI separately being more volatile and less comprehensible, and in overall company performance being more difficult to explain and to understand. We consider that the OCI requirement conflicts with:
- insurers’ aim to be transparent in their reporting to investors, by ignoring significant accounting mismatches; and
 - the IASB’s conceptual framework’s recognition of relevance and faithful representation as fundamental qualitative characteristics of useful financial information ahead of the enhancing characteristic of comparability (even if we were to accept that the OCI mandate promotes comparability, which we do not).
26. We consider that also a requirement to use the OCI introduces considerable operational complexity and therefore extra cost, because of the need to retain and apply more than one discount rate even within the same portfolio – particularly for contracts with multi-year premiums, and anyway at transition.
27. We consider that, instead, the ED should allow insurers to make an election at the inception of the contract for fair value through P&L or for OCI. This would allow insurers to account on a basis that best communicates the results of their management of their products. The election would be irrevocable other than in exceptional circumstances, similar to the approach used in IFRS 9.

EFRAG’s questions to constituents

Under the IASB’s proposals, the difference to be reported in OCI is determined by comparing the discount rate to measure the liabilities and, depending on the type of cash flows, the locked-in discount rate at inception of the insurance contract or an updated rate. Under IAS 19 *Employee Benefits*, the difference is determined by comparing the discount rate at the beginning of the reporting period and the rate at the end of the reporting period. Some, including IASB Board member Stephen Cooper, hold the view that only the latter difference (i.e. the effect of changes in discount rates in the period of the change) provides relevant information (as is described in paragraphs AV5 and AV6 of the Basis for Conclusions), and that, therefore, only this difference should be reported in OCI.

Do you support the approach in the ED or should the interest expense recognised in profit and loss be based on a current discount rate for all type of cash flows? If

so, should the discount rate be the rate at the beginning of the period, as in IAS 19, or that at the closing date?

28. We support the use of a current discount rate as at the closing date.

Do you believe the suggested approach described above will lead to financial statements that provide relevant information that faithfully represent the entity's financial position and performance for contracts? Please consider whether the suggested approach eliminates or reduces accounting mismatches in Profit or Loss and OCI.

29. We agree with an approach that aims to eliminate accounting mismatches by reflecting changes that arise from the same economic events in the same performance statement.

Are you aware of any circumstances in which, from your point of view, measurement of both insurance liabilities and the related financial assets at FV-PL might be needed instead of, or combined with, measurement at FV-OCI? If so, please provide a description of the portfolios of insurance contracts concerned and how the asset-liability management strategy differs from other portfolios.

30. We would not support any obligation to use the OCI. We support instead the ability of insurers to report both insurance liabilities and the related financial assets at FVPL. This is because:

- UK insurers' business is generally managed on a fair value basis without specific regard to asset realisation – which is taken to P&L rather than OCI – and so there would be mismatches and volatility; and
- UK insurers, and their investors and analysts, view the P&L as the primary performance statement.

Do you believe that EFRAG should suggest how the assets related to insurance liabilities should be identified? If so, what would you recommend and why?

31. We note that, under a FVPL approach, this question and the associated complications do not arise.

Do you believe that derivatives should also be accounted for using OCI? If so, how could objective evidence be gathered in respect of derivatives that only play a role in matching insurance liabilities?

32. We note that, under a FVPL approach, this question and the associated complications do not arise.

Should any other assets apart from those included in paragraph 105 be measured at FV-OCI? Please explain why.

33. We note that, under a FVPL approach, this question and the associated complications do not arise.

Do you agree that following EFRAG's approach, the IASB would need to develop an impairment model for debt instruments that do not meet the contractual cash flow characteristics assessment and investments in equities that would be measured at FV-OCI and potentially other assets? If so, what impairment model would you recommend and why?

34. We note that, under a FVPL approach, this question and the associated complications do not arise.

Do you see any problems in recycling realised gains and loss on investments related to contracts with asset-dependent cash flows (that are not under the scope of the IASB's measurement and presentation exception as discussed in Question 2)? If so, what solutions would you recommend? Please explain your answer.

35. We note that, under a FVPL approach, this question and the associated complications do not arise.

Where should changes in the time value of options and guarantees not separated from insurance liabilities be recognised? Please explain your answer.

36. We consider that, in principle, the treatment of changes in the time value of options and guarantees not separated from insurance liabilities should be consistent with that for other effects on the expected cash flows. We acknowledge that further consideration may need to be given to this issue

IASB's Question 5 – Effective date and transition

Do you agree that the proposed approach to transition appropriately balances comparability with verifiability?

Why or why not? If not, what do you suggest and why?

37. We agree with the principles of the proposed approach to transition.
38. We strongly urge the IASB to align the effective dates of IFRS 9 and IFRS 4, at least for insurers, to avoid having performance reporting that is likely to change significantly twice in reasonably quick succession and may be badly distorted in between.

EFRAG's questions to constituents

Considering EFRAG's recommendation for entities where insurance forms a significant part of their activities (i.e. the effective date of IFRS 9 should be deferred until the effective date of the new insurance contracts standard), do you believe that:

(a) Those entities should always be required to apply the impairment proposals earlier than the other parts of IFRS 9; or

(b) Those entities should be allowed early implementation of the impairment proposals compared to the other parts of IFRS 9.

39. We note that, under a FVPL approach, this question and the associated complications do not arise.

Do you believe the scope of the redesignations and reclassifications when the new insurance contracts standard is applied for the first time by entities for whom insurance forms a significant part of their activities, should be extended beyond IFRS 9 (e.g. investment properties)? If yes, please explain what items should be within that scope?

40. We consider that the scope should reflect the need for the ongoing accounting to reflect appropriate asset/liability matching.

IASB's question 6 – The likely effects of a Standard for Insurance contracts

Considering the proposed Standard as a whole, do you think that the costs of complying with the proposed requirements are justified by the benefits that the information will provide? How are those costs and benefits affected by the proposals in Questions 1–5?

How do the costs and benefits compare with any alternative approach that you propose and with the proposals in the 2010 Exposure Draft?

Please describe the likely effect of the proposed Standard as a whole on:

- a. the transparency in the financial statements of the effects of insurance contracts and the comparability between financial statements of different entities that issue insurance contracts; and*
 - b. the compliance costs for preparers and the costs for users of financial statements to understand the information produced, both on initial application and on an on-going basis.*
41. We have highlighted a number of significant cost/benefit concerns above. Whilst we believe that the eventual IFRS can be made worthwhile, these concerns need to be met before we can offer our assessment overall.
42. In addition, we think that the overall burden of the proposed disclosure requirements needs to be considered again. We have not evaluated them all in detail, partly because the changes in the main requirements that we seek above will undoubtedly require disclosures to be re-examined – eg because duration mismatches could show up quite differently. But we highlight here one particular concern which the insurance industry has raised before, and a more general one.
43. The ED does not prescribe a methodology for calculating the risk adjustment. It recognises that the confidence interval approach may or may not be appropriate for measuring the liability. And yet it requires the disclosure of the

result of applying a confidence interval approach – even if it is inappropriate for measuring the liability. Further, as the disclosure is required to be calculated on a gross basis, it fails to reflect the reduction in risk that is achieved through reinsurance. We suggest that this disclosure requirement be removed.

44. Our general concern is that the proposed disclosures seem to build on those in the current IFRS 4, even though those in the current IFRS 4 were developed specifically to recognise that IFRS 4 has incomplete accounting requirements. An example is the loss development disclosure. We would welcome the opportunity to discuss these further with you. Also, we suggest that the capital disclosure requirements need to be looked at to avoid duplication of those in IAS 1 and for a strong rationale to go beyond those in IAS 1.

EFRAG's question to constituents

Do you believe that the IASB's response to the comments on the 2010 Exposure Draft balance the costs of applying these proposals with the benefits of the resulting information provided?

45. As above, we consider that substantial improvements are needed to ensure that insurers' performance is more faithfully presented. We also understand informally that UK constituents' participation in the EFRAG's field-testing hasn't suggested this ED's proposals are more workable in practice than those in 2010's ED.

IASB's question 7 – Clarity of drafting

Do you agree that the proposals are drafted clearly and reflect the decisions made by the IASB?

If not, please describe any proposal that is not clear. How would you clarify it?

46. Apart from our points above, we highlight the following:
- B66(f) is intended, we believe, to ensure that ensure that policyholder tax is included in the expected cash flows, which we support. However, we are not clear that the reference in this paragraph to 'a fiduciary capacity' achieves this purpose in relation to some contracts in the UK and in other countries, and we would welcome further discussion on this point; and
 - We do not find the provisions relating to business combinations and portfolio transfers easy to understand, and we would welcome clarification accordingly. We also are concerned at the requirement to apply fair value measurement, instead of using the existing valuation approach. As the ED and its predecessor acknowledge, attributing fair value to insurance liabilities both may be difficult and overly subjective, and inconsistently involves the recognition of a deposit floor.