Accounting Standards Board
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Submitted electronically via director@fasb.org

Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116
United State of America

Technical Director:

Re: File Reference No. 2016-330
Proposed Accounting Standard Update: Financial Services- Insurance

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the Financial Accounting Standard Board's (FASB) Proposed Accounting Standards Update "Financial Services-Insurance (Topic 944)," issued on September 29, 2016.

Our views

We welcome the opportunity to respond to the FASB's Accounting Standards Update: Financial Services: Insurance. We commend the FASB for moving to a current approach for accounting for long duration insurance contracts. A current approach would create financial results that are more relevant and decision useful for users of insurance entities financial statements. A current approach would more faithfully reflect the economics of the insurance contracts in financial statements. While we agree with the current approach being proposed, we have comments on a few of the main areas in the proposed accounting standards update.

Discount Rate

We strongly support the FASB proposing a discount rate that is a current market observable rate that is independent of the insurance entity's expected return on its invested assets. Using an asset rate to discount the liability creates financial results that are not an appropriate representation of an insurance entity's cost of financing its insurance obligations. We think using a current market observable rate would provide users with a better understanding of how an insurance entity is performing, including any mismatches due to the different risk profiles of the assets and the liabilities.

We recommend that the discount rate be a principle-based rate that reflects the characteristics of the cash flows and the liquidity characteristics of the insurance obligation. This rate would use observable market inputs when available and estimation techniques to determine the rate when no market observable inputs exist. For example, a risk-free yield curve that is adjusted for differences between the liquidity characteristics of the financial instruments underlining the rate and the liquidity characteristics of the insurance obligation could be used. Having a more principle-based rate would allow for global implementation as an insurance entity could use its jurisdictional market observable inputs rather than a prescribed rate that might not be available. To meet US national stakeholders' needs, a practical expedient could be provided identifying a high-quality fixed income instrument yield as such a rate. However, we note that allowing for this rate might sacrifice incorporating some of the liquidity characteristics of the insurance obligation.

The proposals note that the high-quality fixed income instrument yield would be available through various sources, including the rate used to discount pension obligations as noted in the Basis for Conclusions. We want to note that in some jurisdictions the market for these high-quality fixed income investment yield instruments are not as deep and liquid as they are in the US. Therefore, it could be problematic for some insurance entities applying US GAAP outside of the US or for some foreign subsidiaries of an insurance entity applying US GAAP. We also recommend transparent disclosure on how the discount rate is derived be required to assist with comparability both nationally and globally.

From our consultations on the past IFRS proposals, especially with users of the financial statements, interest expense from insurance obligations is a cost of providing insurance coverage and should flow through profit or loss. While OCI provides a practical approach to report changes in the discount rate to a current rate, we have heard that many Canadian entities would also prefer the change in discount rate be reported in profit or loss along with the change in the value of the corresponding assets that are measured at fair value through profit or loss to avoid a mismatch. Therefore, we think a more appropriate approach would be to allow a one-time accounting policy choice, consistent with the insurance entity's level of aggregation, to report changes in the discount rate either through OCI or profit or loss. Such a policy choice would enable an insurance entity to select how best to report changes in the discount rate given the financial assets that support the insurance liabilities.

The other concern is how an insurance entity should account for a change in methodology used to determine the discount rate from period to period. We think the guidance should clarify the intention of the Board as to whether a change in methodology should be treated as a change in accounting estimate, a change in accounting policy or a change that is indistinguishable.

Level of Aggregation

We observe that the level of aggregation has been an area that the IASB has spent a significant amount of time deliberating the feedback received from field testing of its forthcoming Insurance Contracts standard. We think the FASB should consider providing guidance in this area, and would hope that any guidance provided would not be contradictory to the approach taken in that new IFRS.

Cash Flow Assumptions

We strongly agree with the FASB proposals to update the cash flow assumptions on at least an annual basis. Updating the cash flow assumptions would provide more decision useful information and give users a current view of the expected cash flows rather than the historical view that currently exists.

Deferred Acquisition Costs

We agree with the proposed treatment of deferred acquisition costs. We think amortizing the deferred acquisition costs in proportion to the amount of insurance in force, or on a straight line basis if the amount of insurance in force over the expected term of the related contract cannot be reasonably estimated, would produce more meaningful information in the financial statements.

Disclosures

We strongly support the proposed enhanced disclosures including roll forwards of the opening and closing liability balances, compared to only disclosing the total change in the asset or liability balance for the period. The existing disclosures do not enable users of financial statements to fully evaluate the amount, timing and uncertainty of cash flows arising from long duration contracts. We think enhanced disclosures would allow users to understand the risks the insurance entity assumes and would provide more insight into the entity's insurance activities. As well, the enhanced disclosures would allow users of financial statements to compare entities using IFRS and US GAAP as the disclosures would provide qualitative and quantitative information about significant inputs, judgments and assumptions used to measure insurance liabilities. Specifically, disclosures about the assumptions that are made to discount the insurance contract liability would provide some insight into the estimation process. This type of information would enable financial statements users to make comparisons between financial statements under US GAAP and IFRS.

Common reporting outcomes

Overall, we think that financial statement users around the world are seeking a common language when reading financial statements. Minimizing the differences between US GAAP and IFRS would help facilitate efficient capital markets and allow global insurance entities to reduce the cost of maintaining different sets of financial statements based on various accounting frameworks. Therefore, we see the targeted improvements the FASB is proposing and the IASB's forthcoming new insurance standard as high-quality solutions that would result in more comparable financial reporting globally than is the case today. To that end, it would be helpful to stakeholders if common global adoption dates were in place for these insurance projects when reasonable to do so.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@cpacanada.ca) or Katharine Christopoulos, Principal, Accounting Standards (+1 416 204-3270) or kchristopoulos@cpacanada.ca.

Yours truly,

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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.