CFO FORUM insurance europe

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

2 April 2013

Dear Mr Hoogervorst,

Exposure Draft: Classification of Acceptable Methods of Depreciation and Amortisation

We are taking this opportunity to comment on the exposure draft "Classification of Acceptable Methods of Depreciation and Amortisation: Proposed Amendments to IAS 16 & IAS 38". This letter has been drafted by the European Insurance CFO Forum, a body representing the views of 20 of Europe's largest insurance companies and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of a significant element of the European Insurance industry.

We support the IASB's intention to clarify the requirements regarding the use of a revenue-based depreciation. However, we do not agree with the proposed amendments and believe the IASB should improve the drafting of the ED.

There is a contradiction between the main body of the standards and the Basis for Conclusions. Whereas the amendments to the main body (ED IAS 16.62A and ED IAS 38.98A) would lead to a prohibition of a revenue-based depreciation method, the arguments included in the Basis for Conclusions (BC3-BC5) clearly indicate that a revenue-based depreciation method could be an appropriate proxy for certain assets.

We agree with the reasoning in the Basis for Conclusions. In certain cases a revenue-based depreciation method might actually represent the most appropriate approach to reflect the consumption of an asset's future economic benefits. Especially with view to Intangible Assets, future economic benefits can hardly be determined based upon a physical output. Even the use of a time-based straight-line depreciation does not always lead to appropriate results. In such situations, the use of revenue-based parameters should not be prohibited.

In the insurance industry, a revenue-based depreciation might, for example, be appropriate for distribution agreements recognised as Intangible Assets. Although contracted over a medium or long term period, the passage of time is not necessarily an appropriate proxy for the consumption of economic benefits. In this situation a revenue-oriented depreciation method could actually be superior to a time-based straight-line depreciation.

It is not clear how the above proposed changes may impact Deferred Acquisition Costs ("Investment Contract DAC") relating to investment contracts accounted for under IAS 39. An investment contract intangible asset may include, for example, a benefit from providing investment management services which is amortised as the entity recognises the related revenue. As such, as noted in IAS 18 IE.14, a revenue-oriented depreciation method could be appropriate in order to ensure amortisation is recognised with the related revenue.

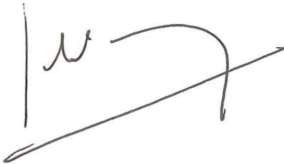
Furthermore, while we appreciate that insurance contracts within the scope of IFRS 4 Insurance Contracts are not within the scope of these proposed IAS 38 amendments, we would like to refer to potential inconsistencies of these proposed amendments with the accounting for certain insurance assets. For intangible insurance assets (e.g. present values of future profits in the Life Business or Renewal Rights in the Property & Casualty Business), we believe that the appropriate amortisation method could be based upon the expected profitability of the underlying insurance contracts. With the insurance premium being one component of profitability this approach also incorporates a revenue based parameter. We are concerned that the proposed amendments to IAS 38 might create an inconsistency with regards to the treatment of intangible insurance assets.

The same concern applies to Deferred Acquisition Costs ("Insurance Contract DAC") that are within the scope of IFRS 4. For the purpose of subsequent measurement, Insurance Contract DAC are amortised on the basis such as premium payments or profits. Under the current proposals in IFRS 4, we understand that Insurance DAC will not be recognised as Intangible Assets anymore but certain acquisition costs will be reflected in the projection of the insurance contract liability. Together with the decision to unlock the residual margin this might not lead to another outcome than under the currently known approaches of DAC-Accounting.

Finally, by supporting the arguments included in the Basis for Conclusions (BC3-BC5) noted above, we consider these paragraphs to be relevant accounting guidance. For that reason, we believe this guidance should be included in the main body of the standards rather than in the Basis for Conclusions.

Please feel free to contact us to discuss any matters raised in this letter.

Yours sincerely,



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