



15 May 2007

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

**INVITATION TO COMMENT ON IASB DISCUSSION PAPER ON
PRELIMINARY VIEWS ON INSURANCE CONTRACTS**

Comments to be received by 29 September 2007

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Discussion Paper which has been posted on the Institute's website at:

www.hkicpa.org.hk/professionaltechnical/accounting/exposedraft/content.php

The Discussion Paper proposes that an insurer should measure its insurance liabilities using the following three building blocks:

- explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows.
- current market discount rates that adjust the estimated future cash flows for the time value of money.
- an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin).

In the IASB's view, a measurement using the three building blocks will provide more relevant information about the future cash flows arising from existing insurance contracts and a consistent approach for all types of insurance contracts.

The discussion paper suggests that an informative and concise name for a measurement that uses the three building blocks is "current exit value". The discussion paper defines current exit value as the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. However, "current exit value" is not meant to imply that the insurer does not intend to settle its obligations with the policyholder. The purpose of specifying this measurement objective is to provide useful information that will help users make economic decisions.

The discussion paper also addresses several other topics, including policyholder behaviour, participating contracts and the reporting of changes in insurance liabilities.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party and the FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Discussion Paper.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Discussion Paper to be considered, they are requested to be received by the Institute on or before **29 September 2007**. Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.