

BY FAX AND BY POST

Our Ref.: C/ACI

11 July 2000

The Secretary-General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2DY
UNITED KINGDOM

Dear Sir,

Issues Paper issued for comment by the IASC Steering Committee on Insurance

We have read the Issues Paper issued for comment by the IASC Steering Committee on Insurance and our comments are set out below. In view of the significant impact external forces are likely to have on accounting for insurance in Hong Kong, we have directed our efforts more to a review of the major principles outlined in the Issues Paper, rather than matters of detail which we are sure will be adequately addressed by the responses made by those representing the major insurance markets.

1. General

The Hong Kong insurance market is significantly influenced by external factors – particularly in the area of Life Insurance. Accordingly we fully support the IASC's initiative in preparing the Issues Paper as the first step in the development of an International Accounting Standard (IAS), particularly in the area of Life Insurance where there is a pressing need for consistency in accounting treatment.

2. Fair Value Accounting

The Issues Paper advocates fair value accounting. Although we have no objection to the principle of fair value accounting, we believe that in developing a framework for adopting fair value accounting for the insurance industry, it would be necessary for the Steering Committee to go into considerably more detail on the issues surrounding this framework, such as measurement, treatment of gains and losses etc. before meaningful comments can be made on the appropriateness of adopting the fair value concept.

3. Scope

In view of the lack of detail as to how fair values would be measured, we have reservations about restricting the scope of the project to insurance contracts only and completely excluding the other assets and liabilities of insurance enterprises.

Whilst we agree that insurance contracts should be the main thrust of the future IAS on insurance, the interrelationship between many financial statement components of insurance enterprises cannot be ignored. Other financial statement components should also be addressed to ensure that the financial reporting for insurance enterprises is internally consistent.

4. Disclosure

The Issues Paper has certain sections on presentation and disclosure. It also mentions the Steering Committee's intention to consider the development of a separate disclosure standard as an interim measure. We consider that it is premature to develop a separate disclosure standard before measurement issues are fully fleshed out and properly addressed. How is it possible to consider disclosure of an item before it is known how it will be determined? We therefore do not support development of an interim standard on disclosure issues.

5. Definition of insurance contracts

In developing an accounting standard for insurance contracts, we perceive that the biggest problem is in defining an "insurance contract". The distinction between products offered by different financial institutions is becoming increasingly blurred nowadays. An obvious example in Hong Kong at the moment is retirement scheme products where we have Insurers competing with Banks, Fund Managers and Securities Houses. There are many examples to be found of other products which in substance and effect are identical but where a few wording differences in contract details or promotional material may cause the product to be regulated as insurance or fund management. It is vital that what are in essence the same products are accounted for in the same way. In practice this may be difficult to achieve where different financial services enterprises are regulated by different regulators, thus allowing "regulatory arbitrage" to occur.

6. Conclusion

We look forward to seeing a Draft Statement of Principles in due course once all the details of measurement have been developed fully.

If you have any queries on the above comments, please feel free to contact our Stephen Chan, Deputy Director of Professional Standards, in the first instance.

Yours faithfully,

LOUIS L.W. WONG
REGISTRAR
HONG KONG SOCIETY OF ACCOUNTANTS

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