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To: Andrea Pryde, IASB

30 November 2010

Dear Andrea

Exposure Draft on Insurance Contracts

As I wrote in my submission last month on the Exposure Draft on Revenue Recognition, the issues raised there are intimately interlinked with those raised in the Exposure Draft on Insurance Contracts. I am therefore now submitting a combined comment.

I enclose an accompanying working paper which analyses the main issues that are interrelated with other projects (updated versions will be posted on my website

<http://www.lse.ac.uk/collections/accounting/facultyAndStaff/profiles/macve.htm>)

There is now such conceptual confusion between the approaches proposed, in the insurance project, the revenue recognition project, the fair value measurement project and the measurement phase of the conceptual framework project, that a fresh start is needed to remove the bafflement currently facing your constituents. Academics, with no vested interest in the final outcome of the Boards' deliberations, may well be the only ones who lose no face by protesting that they simply cannot make sense of the Boards' overwhelmingly voluminous and inconsistent pronouncements.

I trust the paper sets out clearly why a principles based approach to insurance accounting needs to start from rigorous micro-economic analysis of how markets behave; and why this joint FASB/IASB project, which rightly abandons fair value (FV), now needs to go back to the drawing-board (alongside the other projects) to give proper consideration to the broader concept of 'deprival value', which the Boards have so far failed adequately to address. This would enable removal of a lot of the confusing 'conceptual' argument paraded in the current Exposure Draft and in the various papers on related projects (see Appendix A to our paper).

While many difficult issues remain, it would also provide a sound conceptual basis, which is currently lacking, for continuing with much of present GAAP and in particular with much of the current format of income statement presentation for insurers.

Happy to discuss.
Please acknowledge.

Best regards
(signed electronically)
Richard Macve
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