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Sir Bryan Carsberg, FCA
Secretary-General,
IASC,
166 Fleet Street,
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26th May 2000

email to: CommentLetters@iasc.org.uk

Dear Bryan

Insurance Issues Paper, November 1999

In order to meet your comment deadline, I am enclosing on behalf of Dr. Joanne Horton and myself our comments on the life insurance aspects of the issues paper. While we support the overall thrust of the Steering Committee's ('SCI') intention to develop a 'current value' based approach to insurance reporting, we believe (for the reasons set out in our paper) that there are fundamental conceptual flaws in the SCI's present approach, and in the related work of the Joint Working Group ('JWG') on financial instruments, which will render inoperable any practical implementation of international accounting standards developed on this basis. We believe (again for the reasons set out in our paper) that considerable further research, both into the implications of modern asset/liability pricing theory and into the practical experience of experiments to date in 'current value' based accounting (such as the UK's experience with 'embedded value' methodology), is needed before the IASC will be in a position to issue an authoritative exposure draft that is able to command respect in the financial community as well as in both the accounting and actuarial professions.

Above all, we believe that, however much asset and liability valuations are improved, this will still leave unresolved major issues of revenue, cost and profit recognition and measurement, which must be tackled directly but on which the Issues Paper is largely silent.

Our own research into life insurance accounting is currently examining aspects of these issues and we will be happy to communicate significant findings to the SCI as soon as

they become available. At this stage therefore our comments are focused primarily on identifying what we see as the lacunae in the current issues paper rather than on alternative solutions: nevertheless we hope they may be helpful and we would of course be happy to explain any of them further.

Our more general comments on the overall direction of the JWG's work (and related work by the FASB and 'G4+1' group) are set out in:

Horton, J. and Macve, R. (2000), '“Fair value” for financial instruments: how erasing theory is leading to unworkable global accounting standards for performance reporting', forthcoming in *The Australian Accounting Review* (July).

We shall provide you with a copy of this paper as soon as it is published.

We are forwarding these comments electronically and a hard copy will be posted to you.

With kind regards

Yours sincerely

Richard

Richard Macve, FCA
Professor of Accounting

enc.: Comments as Horton, J. and Macve, R. (2000), 'Developing Measurement Principles for Reporting the Performance of Life Insurance Business: the roles of theory and experience in international standard setting', LSE Working Paper.

cc.

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Dr. John Board, LSE

Anthony Carey, ICAEW

David Dean, DTI

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