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26th May 2000

email to: director@fasb.org

Dear Mr. Lucas

**Preliminary Views on major issues related to Reporting Financial Instruments and
Certain Related Assets and Liabilities at Fair Value, December 14 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 'Preliminary Views' paper, i.e. those included in Appendix B. While we support the overall thrust of the FASB's 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 present approach (as in the approach being adopted by the IASC's Steering Committee on Insurance ('SCI')), as well as 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 for life insurance reporting), is needed before the FASB (or IASC) will be in a position to issue an authoritative exposure draft that is able to command respect in the international 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 'Preliminary Views' are 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 FASB 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 'Preliminary Views' 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 comments are set out as comments on the IASC's Issues Paper on Insurance, but apply equally to both that paper and the FASB's 'Preliminary Views'. Our more general comments on the overall approach of the 'Preliminary Views' paper to accounting for financial instruments (and on related work by the JWG 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).

That paper sets out, in particular, a critique of the material in Appendix A of the 'Preliminary Views'. We shall provide you with a copy of the paper as soon as it is published.

We are forwarding these comments electronically. If it would be helpful, a hard copy can also be posted to you.

Yours sincerely

Richard Macve

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

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