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Dear Peter

As the Corporate Reporting Users' Forum (CRUF) Insurance Group, we wrote to you in February to comment on two aspects of insurance accounting under consideration by the IASB, one of which was profit on inception.

We were glad to note that the IASB has decided that Day One Profits after acquisition expenses will not be reflected in primary financial statements.

We also noted that in April the Board refined its position on the calibration of the margins of initial liability, which would be based on premium net of incremental acquisition costs.

In our February letter, we indicated that participants in our discussions overwhelmingly supported not causing a loss to be recognised on inception simply because of the acquisition costs incurred, agreeing with the position that insurers have provided a service in acquiring an insurance contract and that therefore sufficient revenue should be recognised on inception of the contract to cover these costs.

Although many of us favoured an approach based on the capitalisation of direct acquisition costs, we recognised that considerable work would be required to standardise a sufficiently robust Deferred Acquisition Cost (DAC) methodology.

**We would therefore like to take this opportunity to emphasise that we believe that acceptance of the principle that incremental acquisition costs should be netted against premium for the purposes of calibration of the initial liability is far more important than the particular accounting treatment used to put that principle into practice.**

We trust that our view will be of assistance to the Board in any future discussions of this topic.

#### **About the Corporate Reporting Users' Forum (CRUF)**

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB



and FASB. CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

CRUF participants take part in discussions and joint representations as individuals, not as representatives of their employer organisations. The participants in the Forum that have specifically endorsed this response are listed below.

Trevor Petch  
European Insurance Analyst  
Insight Investment

Richard Mathieson  
Senior Investment Strategist  
Barclays Global Investors

Farooq Hanif  
Equity Research  
Morgan Stanley

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William Hawkins  
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James Quin  
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