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Due process as a legitimating mechanism: Participation and responsiveness in the development of IFRS 17: Insurance contracts[☆]

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ABSTRACT

This paper investigates the role of due process in legitimizing the International Accounting Standards Board (IASB) and uses the development of IFRS 17-Insurance Contracts (IASB, 2017a) as a case study. It examines stakeholders' participation and assesses the IASB's responsiveness to the views expressed in the comment letters. It focuses on changes in recognition, valuation, and disclosure during the 10-year process, in which the Financial Accounting Standards Board (FASB) played a relevant role. For input and through-put legitimacy analysis, we conduct content analysis of comment letters and consult additional sources to understand key concerns in insurance accounting. The IASB received substantial feedback from diverse stakeholders and geographical regions, primarily preparers and European constituents. Our findings indicate that decisions throughout the standard-setting process align with stakeholders' interests, without preferential treatment for any groups, affirming the institution's legitimacy was preserved. This confirms that the IASB's due process can be seen as a shield against political and constituent pressures. Nevertheless, this study cannot definitively attribute identified changes solely to comment letters, as other channels may have been equally influential.

1. Introduction

This paper investigates the role of due process[1] as a legitimating mechanism for the International Accounting Standards Board (IASB) in the development of IFRS 17-*Insurance Contracts* (IASB, 2017a). The 10 years it took to develop the standard suggests that it is a contentious topic. Insurance, which facilitates risk transfer, faces rigorous national and regional regulations, resulting in varying accounting rules, and achieving a common standard is a challenge. In addition, during the development of the standard there were some events that could have affected its development. Not only could the constituents have changed, in part due to the involvement of

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[1] The IASB and the IFRS Interpretation Committee follow the three-step due process described in the Due Process Handbook (IFRS Foundation, 2020). Oversight of compliance with this procedural framework is entrusted to the Due Process Oversight Committee. This paper takes a different angle, as it adopts an academic perspective to examine the IASB's due process.

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the Financial Accounting Standards Board (FASB) and its ultimate disengagement from the project, but there were also tensions due to the economic and political environment in which the financial crisis played a clear and major role.

Without ignoring these contextual factors, we carefully consider the perspectives of stakeholders and examine whether the IASB incorporated their viewpoints in the published documents. Specifically, we seek to determine if the resulting IFRS 17 truly represents their interests, excluding political or self-serving motives. In this endeavor, we spotlight the key aspects characterizing insurance accounting, as they were subjects of intense debate throughout the due process.

Our contention is that comprehending the operational intricacies of the IASB's formal due process, particularly in a long project like insurance, is vital to evaluating the legitimacy of this private standard-setting entity (Tamm Hallstrom & Brostöm, 2010; Durocher, Fortin, Allini & Zagaria, 2019; Sanada, 2020). Given the widespread imposition of IFRS in numerous jurisdictions and their global impact on stakeholders, concerns about the IASB's legitimacy have arisen, voiced not only by academia (Burlaud & Colasse, 2011; Richardson & Eberlein, 2011; Botzem, 2014; De Luca & Prather-Kinsey, 2018), but also by institutions like the European Parliament (EP) (2008). We hope that this research can alleviate these concerns, as our findings confirm that the due process served as a legitimating mechanism in this specific instance.

In 2017, when IFRS 17 was issued,[2] the insurance industry represented a substantial share of the global economy. With US$13 trillion in assets, the industry accounts for 12 % of the total assets of the IFRS-utilizing publicly listed companies (IASB, 2017c). This marked a tremendous shift from the prior heterogeneous accounting practices concerning the recognition and valuation of insurance contracts. The predecessor standard, IFRS 4-*Insurance contracts* (IASB, 2004b), had served as an *interim* solution to grant listed firms access to the complete IFRS package back in 2005. It primarily emphasized disclosure, permitting the continued utilization of local practices, which posed challenges to comparability. However, after a decade-long deliberation, the definitive global standard emerged as a significant milestone for the IASB. The standard's development included the issuance of a Discussion Paper (DP) (IASB, 2007) and two Exposure Drafts (ED), namely ED/2010/8 (ED1) (IASB, 2010) and ED/2013/7 (ED2) (IASB, 2013b), a departure from the usual practice. Reflecting on the extensive process of formulating IFRS 17, Walton (2020, 305) contends, "No other individual standard has had the potential to completely change the way many major companies measure assets, liabilities and profits, and therefore it is not surprising that it always attracted a high degree of attention from insurance trade organizations and insurance regulators".

Constituents' engagement, often denoted as lobbying within the literature, assumes a central position in the due process of formulating accounting standards. It encompasses endeavors undertaken by both individuals and organizations to bolster, exert influence upon, or impede proposed standards (Watts & Zimmerman, 1978). A substantial portion of the scholarly inquiry investigating these practices is framed within the economic theory of regulation (Stigler, 1971). But in addition, participation analysis provides insight into the authors of the comment letters and their preferences. This is useful in assessing the extent to which the standard-setter merits the attention of constituents. It also makes it possible to find out whether subsequent proposals align with the preferences expressed by the respondents. Both dimensions help to corroborate the institutional legitimacy of the standard-setter, and this is the main objective we seek to ascertain within this study: whether the due process functions as a substantiating instrument for legitimacy.

This study undertakes a content analysis of 629 public comment letters submitted to the IASB during the development of IFRS 17. Despite the substantial volume of letters, it acknowledges the potential utilization of informal communication channels by stakeholders, though concrete evidence remains elusive (IASB, 2013a; Walton, 2020). Therefore, the assertion that comment letters constituted the principal mechanism for conveying constituents' preferences or influencing the IASB's changes from one document to the next cannot be substantiated. Responding to Sanada's (2020) call for legitimacy studies grounded in empirical evidence, this research advances beyond participation identification, seeking to evaluate whether the standard-setting body is truly serving stakeholders' interests. The investigation hinges on the notion that both facets contribute to the institutional legitimacy of the standard setter.

We adopt a process-oriented legitimacy perspective (Tamm Hallstrom & Brostöm, 2010; Richardson & Eberlein, 2011; Jorissen, Lybaert, Orens & van der Tas, 2012, 2013; Botzem, 2014; Pelger & Spieß, 2017), employing the concepts of input, through-put, and output legitimacy. Concentrating on the due process itself, rather than its outcomes, we scrutinize whether the comment letters emanated from varied interest groups and diverse geographical origins –a circumstance that, as posited by institutional theory, may have contributed to input legitimacy. Furthermore, it endeavors to ascertain if the IASB's decision-making process, as inferred from written documentation, evidenced responsiveness to these letters, aligning with the notion of through-put legitimacy. The multifaceted nature of legitimacy underscores its status as a social construct, which "reflects a congruence between the behaviors of the legitimated entity and the shared (or assumedly shared) beliefs of some social group; thus, legitimacy is dependent on a collective audience, yet independent of particular observers" (Suchman, 1995, 574). Coherent with this perspective, it can be inferred that the IASB would take into account opinions expressed during the due process to safeguard its perceived legitimacy (Richardson & Eberlein, 2011).

Similar to Pelger's (2016) approach, apart from comment letters, additional sources such as the IStaR newsletter were scrutinized to gather stakeholders' perspectives. While the newsletter facilitated comprehension of the board's thinking and evolution, it did not help to identify specific instances that may have affected the development of the documents. It is noteworthy that the International Association of Insurance Supervisors (IAIS) was recurrently invited to contribute to educational/informative sessions. And albeit

[2] IFRS 17 was issued in May 2017 to be effective for the annual accounting periods starting on or after January 1, 2021. In 2017, the IASB established a Transition Resource Group to help in the implementation of the standard, which, as Leonie and Pelger (2021) state, was a relevant instrument to co-construct the meaning of IFRS 17 and add further legitimacy.The difficulties surrounding IFRS 17 did not end after it was issued. In 2018 and 2020, the IASB delayed its implementation date, partly due to its revision; and in 2020, an amended IFRS 17 (IASB, 2020) was issued to come into effect on January 1, 2023.

anecdotal, during a joint meeting, as quoted by Walton, Rob Esson of IAIS emphasized that “banks and insurance companies were not the same. A solution designed for banks could cause problems for insurers… He asked for an answer that did not cause volatility” (IStaR, 2009b, 40). To what extent this is an educational comment is not for us to say, but it contradicts the IASB’s idea of having a sector-agnostic solution.

As in Dobler and Knospe (2016), after examining respondent demographics, an imbalance emerged in terms of interest groups and geographical origins. Preparers, aligned with the tenets of rational behavior theory (Sutton, 1984), accounted for approximately half of the comment letters. Audit firms, regulators, and actuaries/consultants contributed significantly as well, constituting around 40 %. Users, however, displayed limited engagement. Geographically, European institutions (such as European Financial Reporting Advisory Group-EFRAG, European Securities and Markets Authority-ESMA, European Banking Federation-EBF, and European Central Bank) dominated participation, comprising nearly 40 % of respondents. While US constituents participated less, their involvement remained consistent throughout the process, indicating resilience despite the conclusion of the convergence project with the FASB. Notably, the IASB undertook events targeting specific geographical areas and users surrounding the release of ED 2 and IFRS 17 to mitigate input legitimacy concerns.

Assessing responsiveness, this study examines stakeholders’ perspectives on profit recognition, margin, and volatility presentation –three key issues that changed during the process. Although initially only preparers advocated a gradual profit trend over initial recognition, other groups gradually aligned with this stance –paralleling the IASB’s position. Notably, US respondents favored the FASB’s margin approach, diverging from the IASB’ preference, which was preferred by the majority of respondents. Regarding volatility presentation, consensus across stakeholder groups, excluding the profession, enabled companies to select from two alternatives: other comprehensive income (OCI) and profit and loss. The capacity to respond to constituents’ expressed preferences is interpreted as an indicator of through-put or procedural legitimacy. In this context, legitimacy derives from the ability to make rules acceptable to the constituency, rather than to obtain “optimal” rules (De Luca & Prather-Kinsey, 2018).

Synthesizing input and through-put considerations within the formal due process of IFRS 17′s development, this study contends that the standard’s issuance marked a milestone in institutional legitimacy (Richardson & Eberlein, 2011). It is acknowledged that alternative avenues may have been employed by constituents to express views to the IASB. However, the findings suggest that either these channels coincided with preferences conveyed in public letters or were not integrated into the IASB’s decision-making. In short, the results suggest that public consultation and transparency remained unadulterated by private channels or political influences that could jeopardize institutional legitimacy, implying the due process functioned as a shield against external pressures.

This paper is organized as follows: Section 2 addresses the theoretical and institutional context framing this research. Section 3 presents the fundamental elements of IFRS 17, coupled with antecedent documents underpinning the standard – thereby establishing the foundation for the hypothesis to be tested. Section 4 delves into the empirical work founded on comment letters addressed to the IASB; it outlines the methodology employed and offers an analysis of participation and responsiveness. Lastly, Section 5 offers the concluding remarks.

2. Theoretical and institutional context

2.1. Theoretical framework

Grounded in the economic theory of regulation (Stigler, 1971), the accounting literature has exhibited longstanding interest with the interplay between politics and the standard-setting process (Kelly, 1982; Francis, 1987). This discourse was mainly driven by positive accounting theory (Watts & Zimmerman, 1978). This literature substantiates that stakeholder’s endeavor to shape the content of accounting standards by submitting comment letters during the consultation period established within the due process. This research predominantly derives its underpinning from Sutton’s (1984) rational lobbying model. According to this model, a rational agent’s participation in the standard-setting process is predicated on the anticipation that the benefits of lobbying surpass the associated costs. Consequently, stakeholders, particularly preparers, orient their lobbying efforts based on the expected economic consequences of proposals.

Acknowledging the economic consequences inherent in accounting and accounting standards (Zeff, 1978), the literature attests to the broadening of stakeholders beyond traditional actors to include politicians. This implies considering specific motivations and considering country-specific channels. For instance, within the USA, congressional intervention impinged upon the FASB’s standard-setting process concerning matters like stock options, pooling accounting, and fair value (Farber, Johnson & Petroni, 2007; Ramanna, 2008; Gipper, Lombardi & Skinner, 2013; Bischof, Daske & Sextroh, 2020). In Spain, direct governmental intervention was manifest through the issuance of accounting standards for banks, conflicting with IFRS (Giner & Mora, 2021). In the European Union (EU), pressures have been associated with the role of the European Commission (EC) and the EP in the IFRS endorsement process (Bischof & Daske, 2016; De Luca & Prather-Kinsey, 2018). While due process should serve as a shielding mechanism against external pressures, historical evidence, exemplified by the amendment of IAS 39-*Financial Instruments: Recognition and Measurement*, attests this premise sometimes fails (Andre, Cazavan-Jeny, Dick, Richard & Walton, 2009; Zeff, 2012). This study uses the development of IFRS 17, which took place in a period fraught with political and economic overtones, to scrutinize the extent to which due process acted as a procedural mechanism that mitigated constituent pressures and strengthened IASB’s legitimacy.

Institutional theory provides an overarching framework for comprehending due process, encapsulating the perspectives of affected institutions, particularly accounting standard setters. This framework elucidates why such institutions search for legitimacy, solicit input, and increasingly rely on due process mechanisms for formulating standards (Richardson & Eberlein, 2011). It is argued that private institutions such as the IASB can achieve legitimacy, rationalizing their existence via sound due process (Sanada, 2020).

Anchored in the three legitimization perspectives –structural-functionalist, social constructionist, and hegemonic– outlined by Richardson (1987), Sanada (2020) synthesizes diverse strands of legitimacy research concerning private accounting standard setters. Furthermore, these perspectives are juxtaposed with distinct research methodologies –positive, interpretive, and critical. Our study aligns predominantly with the structural-functionalist pillar, which "presumes that both values and actions are defined by the functions which must be performed for a social system to survive" (Richardson, 1987, 343). It concurrently draws insights from social-constructionist studies, acknowledging the pivotal role of social acceptance. Our analysis scrutinizes the IASB's formal due process, anchoring legitimacy within a triadic framework encompassing input, through-put, and output stages (Tamm Hallstrom & Brostöm, 2010; Richardson & Eberlein, 2011), which "derive from social constructionist studies but overlap among the three theoretical pillars" (Sanada, 2020, 9).

Our examination of input legitimacy hinges on the extensive engagement of affected stakeholders in the public consultations spanning the insurance project documents. Through-put legitimacy is assessed by tracing changes from one document to the next, underpinning the hypothesis that these modifications capture responsiveness to constituents' needs. We eschew the exploration of output legitimacy, as IFRS 17 had not been implemented during the study period. Parallel to prevailing structural-functionalist literature (Giner & Arce, 2012; Jorissen et al., 2012, 2013; Kosi & Reither, 2014; Clacher, Shields & Zang, 2019), our analysis predominantly hinges on comment letters, a pivotal element of the due process that offers stakeholders "opportunities both to observe and contribute to policy-making" (Esty, 2006, 1531).

Although, as Richardson and Eberlein (2011) argue, due process mechanisms allow redirecting stakeholder participation from private meetings and indirect channels to a public forum, some stakeholders use informal modalities –e.g., private meetings or telephone conversations that leave minimal traces–, and others don't participate at all. However, referring to the UK Accounting Standards Board's process, Georgiou (2004, 2010) confirms that, in preparers' opinion, those using informal methods also send comment letters. Regarding the lack of participation, over time the IFRS Foundation has augmented its outreach activities, organizing roundtables and other public events to foster dialogue between board members and staff with stakeholders. This endeavor, especially pronounced post-financial crisis, seeks to enhance user centricity and mitigate legitimate concerns (Bhimani, Bond & Sivabalan, 2019). Notably, the release of ED2 and IFRS 17 precipitated a series of user-centric meetings across diverse geographical locations. While comment letters are publicly available, insights from these events are confined to summaries compiled by IASB staff.[3]

Previous research has investigated the legitimacy of private standard setters based on comment letters, as we do in this study. Some studies discern that the IASB conscientiously takes constituents' viewpoints into account while maintaining independence and resisting undue influences (Giner & Arce, 2012; Bamber & McMeeking, 2016; Hewa, Mala & Chen, 2020). In contrast, others underscore preparers' influence, tempered by strategic negotiations and compromises (Kwok & Sharp, 2005).

2.2. Institutional context: financial crisis and convergence project

According to Grant Thornton (2017), the length of the insurance project's development could have been influenced by several factors: i) the diversity of insurance accounting practices, jurisdiction-specific products, tax issues, and regulations; ii) national and regional idiosyncrasies impacting pricing and solvency; iii) convergence efforts with the FASB; and iv) alignment with core principles of concurrent major standards such as IFRS 9-*Financial Instruments* and IFRS 15-*Revenue from Contracts with Customers*. Additionally, as delineated below, the evolution of IFRS 17 was potentially shaped by two pivotal events: the 2008 financial crisis and the convergence program (FASB & IASB, 2002).

The 2008 financial crisis sparked substantial political and institutional criticism directed at both the IASB and the FASB, implicating their standards as potential contributors to the crisis. This concern prompted a considerable allocation of time and effort toward devising the new impairment loss model within IFRS 9, resulting in delays to other projects (Barth & Landsman, 2010; Giner & Mora, 2019). Furthermore, in response to EU pressure to mitigate pro-cyclicality, the IASB hastily amended IAS 39 in October 2008, demonstrating how political considerations can exert an overriding influence on standard-setting processes (Andre et al., 2009; Zeff, 2012). Concurrently, the democratic legitimacy of the IASB was brought under scrutiny by the EP (Radwan, 2008; Burlaud & Colasse, 2011; Botzem, 2014), resulting in structural changes within the IFRS Foundation, including the establishment of a Monitoring Board[4] to bolster legitimacy (De Luca & Prather-Kinsey, 2018). In this context, certain EU institutions like EFRAG and ESMA not only showed increased activism but also caught the attention of the IASB (Zeff, 2012; Bischof & Daske, 2016).

[3] The IFRS Foundation's website contains not only the agenda papers for board meetings, but also summaries and videos of meetings with various network groups. Regarding the insurance project, there is information about: five meetings of the Insurance Working Group, which were held between 2008 and 2012, five meetings of the Accounting Standards Advisory Forum, two of the Capital Markets Advisory Committee, one of the Due Process Oversight Committee, two of the IFRS Advisory Council, which took place from 2013 to 2017, and the World Standards-Setters conference in 2014. See: https://www.ifrs.org/projects/completed-projects/2017/insurance-contracts/#meetings.

[4] The Monitoring Board was established in 2009 as a reinforcement mechanism to enhance public accountability (IASCF, 2009).

The financial crisis also catalyzed the gradual unraveling of the ambitious 2002 convergence program between the FASB and the IASB (Ong, 2017). While political leaders claimed coordinated efforts to "achieve a single set of high-quality global accounting standards" (G20 Leaders, 2009, paragraph 15), the financial crisis and concurrent political developments in the USA prompted the Securities and Exchange Commission (SEC) to redirect its focus toward more pressing concerns, ultimately shelving the convergence program (Becker, Daske, Pelger & Zeff, 2022).[5] The notable emphasis on EU institutions may have played a role in shaping the SEC's decision, as highlighted by Bischof and Daske (2016, 134): "observers of the SEC's role in the convergence project claim that the IASB's responsiveness to EU interests explains why the project is currently put on hold by the SEC." The convergence program was ultimately abandoned in 2013, during the course of discussions on the insurance project, with each standard setter independently publishing its respective insurance draft.[6]

These two events could have induced shifts in stakeholder attitudes towards the documents issued during the development of IFRS 17, and could have affected the geographical distribution of respondents, especially between EU and US constituents. The financial crisis spurred heightened engagement and expectations from EU institutions toward the IASB, while US stakeholders might have perceived diminished relevance owing to uncertainties surrounding the convergence program. Consequently, US constituents might be less interested in responding to ED2 (issued after the end of convergence) than to DP (published before the crisis and with the convergence project underway), and even less interested than to ED1 (published in the midst of a difficult post-crisis period but still working with convergence in mind). However, as shown in the Participation analysis section, this did not occur.

3. IFRS 17 development

In this section we highlight the main content of the documents that preceded IFRS 17, namely DP, ED1 and ED2, and then move on to FRS 17. We also discuss how the FASB might have affected the IASB's decisions throughout the process. Finally, we set out the hypothesis to be tested.

Fig. 1 presents a chronological sequence of the main events that took place in the two-phase development of the insurance project.

3.1. *Steps prior to the publication of IFRS 17*

In 1997, the International Accounting Standards Committee (IASC) established a Steering Committee tasked with initiating preliminary work on the insurance project. Subsequently, in 2002 one year after the creation of the IASB, the board incorporated the project into its agenda. The Steering Committee evolved into an expanded Advisory Committee, holding its inaugural meeting in April 2002. During the deliberations of Phase 1, the board was concerned about not having a standard by 2005. The debate included the possibility of endorsing prevailing practices and the potential conflict that might arise if entities were required to adhere to the hierarchy specified in IAS 8-*Accounting Policies, Changes in Accounting Estimates and Errors*. As Peter Clark, IASB staff, pointed out, the appropriate response in the absence of an IFRS was the US Generally Accepted Accounting Principles (GAAP), but this did not go down well by some board members (IStaR, 2002). Divergent viewpoints also emerged within the Advisory Committee (IStaR, 2003a). The board also tackled the issue of mitigating mismatches that could arise from the application of IAS 39, wherein assets were measured at fair value while liabilities were accounted for at cost. It was ultimately decided not to introduce special asset valuation rules for insurers (IStaR, 2003b).

Phase 1 concluded in March 2004 with the issuance of IFRS 4. It focused on enhanced disclosures about the amount, timing, and uncertainty of future cash flows associated with insurance contracts, and represented some progress towards transparency and comparability across jurisdictions. Paragraph 13 of IFRS 4 introduced a temporary exemption from adhering to the hierarchy outlined in paragraphs 10–12 of IAS 8 (IASB, 2004b). This provision, alongside considerations regarding asset-liability mismatches, among other factors, led six out of fourteen board members to vote against IFRS 4 (IASB, 2004a). Although it was acknowledged that transitioning to IFRS could introduce volatility, transparency, "and in particular the information provided on the mismatch between assets and liabilities and thus on the overall risk" (Fitch Ratings, 2004, 1), was also appreciated.

In September 2004, Phase 2 was initiated, marked by the establishment of an Insurance Working Group to support the board in developing a comprehensive IFRS standard. The overarching objective was to refine and expand upon the existing standard, concentrating on the measurement and presentation of insurance contracts (IASB, 2017c).

Spanning the interval from 2004 to 2007, the board developed the DP outlining preliminary views on insurance contracts and delineating the core components of the accounting model to capture the entity's rights and obligations (i.e., assets and liabilities) derived from such contracts. The DP advocated for the application of a uniform model to *all* insurance contracts across *all* entities. For

[5] Becker et al. (2022) discuss the role of the SEC's Chair in the adoption of IFRS in the USA, and in the convergence process. As the authors explain, this was strongly supported by Chair Cox, who was a strong supporter of international cooperation, and even represented the SEC at the International Organization of Securities Commissions (IOSCO). The financial crisis forced him to relinquish this task and undermined his social standing as supporter of a major regulatory reform. In early 2009 he was succeeded by Schapiro at the SEC, who had to deal with the aftermath of the financial crisis. Although she was not as interested in IFRS, she participated in the meetings of the Monitoring Board. IFRS thus ceased to be the focus of the SEC's attention, which explains the 2012 staff report that marked the end of the convergence program. The following Chair, White, tried to promote the topic of IFRS adoption but did not have the political support.

[6] See Hail et al. (2010a,2010b) for a comprehensive analysis of the economic and policy factors related to the potential adoption of IFRS in the US, including the discussion on the existence of a unique standard setter.

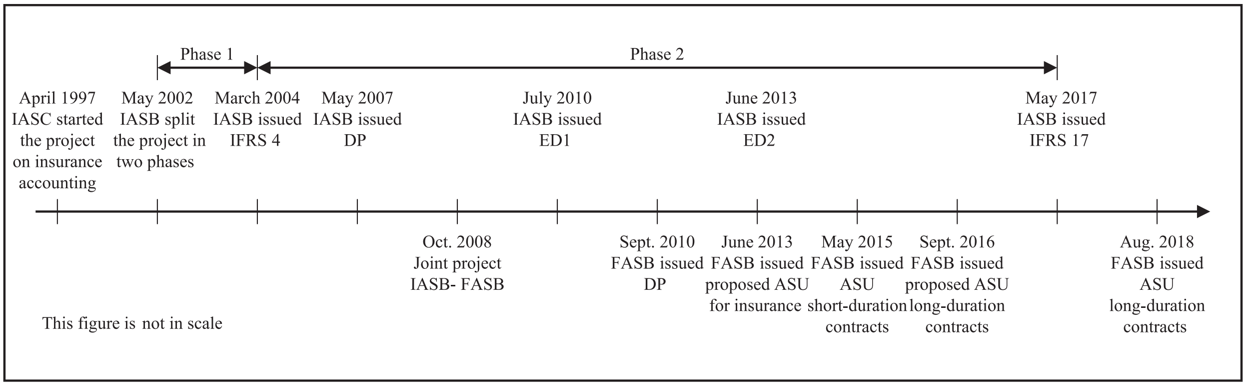

Fig. 1. Insurance contracts project timeline.

measuring the liability, it prescribed the current exit value, reflecting the amount an insurer would be willing to pay to transfer the extant insurance obligation to another entity. This exit value, based on the discounted value of expected cash flows from the insurance liability, could potentially give rise to "day-one gains." Given the unobservable nature of this exit value, the DP introduced a building blocks approach encompassing three stages: i) estimating future cash flows, ii) determining the discount rate (considering time value of money), and iii) incorporating a margin including risk adjustment (to be recalculated at each reporting period) and service (if applicable).

In 2009, the board conducted field tests to acquire practical insights into the proposed insurance model's application. Subsequently, ED1 was released in July 2010. This first exposure draft affirmed the adoption of a unified model applicable to all insurance contracts and maintained the building blocks approach as the core method for measuring insurance contracts. However, ED1 diverged from the exit value, advocating the adoption of discounted fulfillment cash flows with an added risk adjustment (called residual margin) that eliminated any upfront gain, resulting in the two separate margin approach. Example 1 in the Appendix provides a simplified case to illustrate the impact of recognizing profit upon inception or during the coverage period.

Nevertheless, ED1 asked stakeholders about their preferences between: i) the separate margin approach, and ii) a composite margin that did not require remeasurement at each reporting period, preferred by the FASB. More than 400 meetings with potentially affected parties were organized to review the proposals and understand any concerns about ED1 (IASB, 2013a). The subsequent release of ED2 in 2013 confirmed the separation of the risk adjustment and the contractual service margin (service margin in ED1). Example 2 in the Appendix illustrates how these two approaches impact the balance sheet.

To reduce volatility, ED2 stated that the effects of changes in discount rates and other financial variables should go to OCI rather than profit and loss (as in DP and ED1) and be allocated to profit and loss during the remainder of the coverage period. The impact of these alternatives on the primary financial statements is illustrated in Example 3 in the Appendix.

3.2. *The role of the FASB in the insurance project*

The FASB played a major role in shaping the evolution of IFRS 17. In August 2007 it issued an invitation for comments on the document: *A FASB Agenda Proposal: Accounting for Insurance Contracts by Insurers and Policyholders* (FASB, 2007), which featured the IASB's DP as an appendix. While the IASB received 167 comment letters, including 23 from the USA, the FASB received 45 responses. Bolstered by the feedback received and with the intention to improve and simplify US GAAP, the FASB formally opted to engage in a joint project with the IASB in October 2008. The prospect of jointly undertaking this endeavor had been deliberated for some years, as elucidated below.

During a joint meeting of both boards in April 2004, Walton records: "The boards also agreed that the IASB should lead on the insurance project" (IStaR, 2004, 41). Another instance is referenced in a joint meeting held in October 2006, where Walton states: "The FASB was committed to issuing the insurance discussion paper with a wrap-around pretty quickly" (IStaR, 2006, 14), a commitment that was honored. Nevertheless, in July 2010, with the release of IASB's ED1, the FASB opted not to join this initiative and, a few months later, issued its own DP, soliciting preliminary views on insurance contracts (FASB, 2010). This decision suggests the possibility of perceived discord between the two boards, which could affect stakeholder responses to ED1. In fact, by mid-2009, indications of conflicting perspectives had already emerged. Contextual changes within the US SEC during this period (as detailed in footnote 5) impacted the US stance on accounting convergence. As reported by Walton, during an IASB meeting in June 2009, Mr. van der Veen, IASB staff, remarked: "the issues around measurement would take longer than staff originally planned, and added that there were also a number of differences emerging between the view of the IASB and that of FASB." The IASB Chairman's response underscored the need for each board to finalize its own position, in his own words: "If there were differences a joint meeting might be able to hammer them out but if they could not be resolved, the EDs should be issued anyway" (IStaR, 2009a, 30).

A central point of contention that potentially spurred the decision to chart separate paths revolved around the determination of the margin. The IASB advocated incorporating two margins while the FASB contended for a single margin combining both components (risk and residual margin) that should remain constant.

In June 2013, the FASB released the exposure draft: *Proposed Accounting Standards Update (ASU) Insurance Contracts* (*Topic 834*) (FASB, 2013). This document postulated that contracts transferring significant insurance risk should be accounted for uniformly, irrespective of the contract issuer. This stance mirrored the approach recently embraced by the IASB through its ED2. Both consultation periods coincided, with the FASB receiving 214 comment letters, while only 27 US constituents responded to the IASB.

In February 2014, in the aftermath of discontinuing the convergence program, the FASB also suspended its collaborative efforts with the IASB regarding insurance contracts. Subsequently, the FASB redirected its focus toward refining the existing US GAAP exclusively for the insurance industry. This redirection culminated in a distinct solution deviating from the IASB's proposal. For short-duration contracts (property and casualty contracts), the FASB opted for targeted improvements centered on disclosures, ultimately issuing a standard in May 2015 (FASB, 2015). A draft for long-duration contracts (life and annuity contracts) was issued in September 2016 (FASB, 2016), and the standard was published in August 2018 (FASB, 2018).

3.3. *IFRS 17: a new standard for insurance contracts*

Under IFRS 17, *all* entities are required to measure *all* insurance contracts at their present value, using updated assumptions about cash flows, discount rates and risk adjustments, along with the contractual service margin (IASB, 2017a, paragraph 32). Consequently, users have access to up-to-date information on the current and future profitability of the entities. The margin is a component of the asset or liability for the group of insurance contracts, and includes the unrealized profit that the entity recognizes as earnings when providing services over the coverage period (IASB, 2017a, paragraph 38).

IFRS 17 allows companies to present the effects of fluctuations in discount rates and other financial variables either in profit and loss or in OCI. This flexible approach ensures consistent measurement of an insurance contract portfolio and the assets backing it, thereby insulating key performance metrics of insurance activities, which center around the outcome of insurance services.

While IFRS 17 is sector-agnostic, it mainly affects the insurance industry. However, there are differences between non-life insurers (property and casualty insurers) and life and health insurers. The short-term nature of non-life contracts reduces concerns about profit recognition and volatility presentation, as the resolution of uncertainties, including expenses, occurs within one year. Conversely, the long-term horizon of life contracts exposes companies to higher risks and premiums. This dichotomy may induce diverse perspectives among preparers concerning the portrayal of volatility.

3.4. *IFRS 17 changes under study and hypothesis*

After analyzing the development of IFRS 17, we identify three salient standardization issues that have a substantial impact on accounting figures. Consequently, as Dobler and Knospe (2013; 2016) state,[7] there should be a broad participation of stakeholders, in particularly preparers. As Table 1 shows, the issues are: i) the measurement criterion and profit recognition; ii) the approach toward margin; and iii) the recognition of changes in discount rates. These issues have also been chosen based on the changes that the IASB introduced as it moved from one stage of the process to another.

The first issue revolves around the choice between exit and fulfillment measurement, together with the recognition of unearned profit, either at inception or during the coverage period. The DP required profit recognition, if any, upon initial registration of an insurance contract. However, ED1 stipulated that the unearned profit should be shown on the balance sheet as an insurance liability component, to be recognized in the profit and loss account over the coverage period. This constitutes the first change under scrutiny (see Example 1 in the Appendix).

The treatment of the risk margin emerged as a key point of contention between the IASB and the FASB, forming the second focal issue. The IASB advocated a two-margin approach, while the FASB endorsed a composite measure. This issue materialized within ED1, driven by the measurement criterion that precluded inception gains, prompting the IASB to offer both alternatives for stakeholder deliberation. Eventually, ED2 approved the separation of margins, which is the second change examined herein (observe Example 2 in the Appendix).

The third issue pertains to the presentation of volatility arising from market fluctuations, such as variations in discount rates, which especially impacts companies dealing in long-term (life) contracts (Post, Gründl, Schmidl & Dorfman, 2007). The DP and ED1 proposed recognizing such fluctuations within the profit and loss account of the period. In contrast, ED2 mandated their recognition within OCI, to be allocated to the profit and loss account during the coverage period. This constitutes the third change under investigation (see Example 3 in the Appendix). Ultimately, IFRS 17 granted companies the liberty to opt for either presentation, marking the fourth change under scrutiny.

Table 1 summarizes the proposals for the three selected issues as presented across the four IASB documents, while concurrently identifying the four corresponding changes.

The central aim of our study is to discern whether the IASB's decision-making process, as exemplified by the four changes, mirrors the interests of stakeholders that sent comment letters. Consequently, this study explores whether the due process contributed to enhancing the IASB's procedural legitimacy. As the formal due process gives equal opportunity to all stakeholders to participate, it should foster the IASB's desire to develop appropriate standards (Wingard, Bosman & Amisi, 2016) and ensure acceptance by its

[7] Dobler and Knospe (2013) identify three categories of accounting issues: i) standardization, such as recognition, measurement, and valuation; ii) technical; and iii) disclosure. As the impact on accounting numbers is stronger on category (i), so should constituents' participation, which was the case with the insurance project.

Table 1
Comparison between DP, ED1, ED2, and IFRS 17.

Issue	DP (2007)	ED1 (2010)	ED2 (2013)	IFRS 17 (2017)
Measurement criteria and profit recognition	At initial recognition of the contract			
	Change 1→	Over coverage period		
Margin approach	Risk adjustment and service margin, if applicable			
		Separate margin approach (risk adjustment and residual margin) or Single composite margin		
		Change 2→	Separate margin approach	
Recognition of changes in discount rate	Profit and loss account			
		Change 3→	Other comprehensive income	
			Change 4→	Profit and loss account or other comprehensive income

constituency (De Luca & Prather-Kinsey, 2018). In light of this, we establish the subsequent alternative hypothesis that supports the role of due process for the IASB's input legitimacy:

The IASB's decision-making appears to respond to the interests of different stakeholder groups, as expressed in their comment letters.

4. Empirical analysis

This study adopts a structural-functionalist approach to assess the legitimizing function of due process. Next, we explain the methodological approach employed for letter analysis, delineate participation patterns evident in the examined letters, and present the outcomes of the responsiveness analysis.

4.1. Methodology

Following Milne and Adler (1999), a two-step content analysis process is employed. The first step consists of defining the categories and the second of formulating "what" and "how" the text is coded, measured, and classified. This process discerns respondent positions concerning the three delineated issues.

To mitigate subjectivity, the Kappa statistic for inter-annotator agreement, proposed by Cohen (1960), is utilized. A subset of 60 comment letters, having undergone comprehensive examination, is randomly chosen. An assistant researcher replicates the analysis, independently determining respondent positions for each issue. No significant disparities emerge between the two annotations across the scrutinized issues (profit recognition, $K = 0.944$; risk adjustment and residual margin, $K = 0.825$; presentation, $K = 0.639$; all statistically significant at 1 %).

We categorize the 629 respondents into distinct groups: preparers, accounting profession, regulators –comprising accounting standard setters, stock exchanges, and regulatory and legal authorities–, and actuaries/consultants. A fifth group labeled as "others" encompasses financial analysts, investors, academics, and "individuals" –the latter category includes respondents writing independently, except those linked to academic institutions or specific companies, as in Larson (1997) and Jorissen et al. (2012, 2013).

To assess the IASB's relative responsiveness to suggestions from stakeholder groups, agreement levels with respondents' opinions are evaluated against all received responses (Kwok & Sharp, 2005; Giner & Arce, 2012; and Bamber & McMeeking, 2016). Positions articulated within letters pertaining to the DP, ED1 and ED2 are examined in relation to four subsequent changes in ED1, ED2, and IFRS 17. As in Kwok and Sharp (2005) and Giner and Arce (2012), each letter's linkage to IASB outcomes is encoded: $+1$ for concurrence, -1 for discrepancy, and 0 otherwise. Binomial tests verify alignment of final IASB stance with comment letters, while Pearson χ^2 tests establish connections between predictor variables (interest groups or geographical origins) and IASB responsiveness.

Furthermore, detailed scrutiny of letters from key stakeholders –e.g., Basel Committee on Banking Supervision (BCBS), Committee of European Securities Regulators (CESR), EBF, EFRAG, IAIS, among others– supplements a qualitative perspective of responses.

4.2. Participation analysis

Table 2, Panel A, provides comprehensive interest group participation details. Preparers are the most prominent (52 %), followed by regulators (17 %), while users (investors and financial analysts) contribute a modest 4 %. Caution should be exercised when interpreting these figures, given the population disparities. While preparers hold the highest numerical representation (324 respondents), the number of regulators (107) is more substantial due to fewer potential respondents.

This distribution aligns with earlier research (Kwok & Sharp, 2005; Larson, 2007; Georgiou, 2010; Giner & Arce, 2012; Jorissen et al., 2012). Jorissen et al. (2012) analyze 3234 comment letters sent to 33 IASB projects during 2002–2006, concluding that preparers, accountants, and standard setters are particularly active on issues significantly impacting company numbers (as evident

Table 2
Constituent participation in the three consultation periods per interest group.

Panel A: All interest groups

Interest group	Number of letters per period: Total N	%	DP N	%	ED1 N	%	ED2 N	%	Number of respondents: 1CL N	%	2CL N	%	3CL N	%	Total N
Preparers	**324**	**52 %**	**79**	**47 %**	**141**	**54 %**	**104**	**51 %**	**109**	**54 %**	**61**	**30 %**	**31**	**15 %**	**201**
Associations	*127*	*20 %*	*39*	*23 %*	*51*	*20 %*	*37*	*18 %*	*33*	*46 %*	*20*	*28 %*	*18*	*25 %*	*71*
Companies	*197*	*31 %*	*40*	*24 %*	*90*	*35 %*	*67*	*33 %*	*76*	*58 %*	*41*	*32 %*	*13*	*10 %*	*130*
Regulators	**107**	**17 %**	**29**	**17 %**	**40**	**15 %**	**38**	**19 %**	**32**	**49 %**	**24**	**37 %**	**9**	**14 %**	**65**
Accounting standard setters	*62*	*10 %*	*17*	*10 %*	*22*	*8 %*	*23*	*11 %*	*17*	*47 %*	*12*	*33 %*	*7*	*19 %*	*36*
Regulatory authorities	*44*	*7 %*	*12*	*7 %*	*17*	*7 %*	*15*	*7 %*	*14*	*50 %*	*12*	*43 %*	*2*	*7 %*	*28*
Stock exchanges	*1*	*0 %*	*0*	*0 %*	*1*	*0 %*	*0*	*0 %*	*1*	*100 %*	*0*	*0 %*	*0*	*0 %*	*1*
Accounting profession	**81**	**13 %**	**26**	**16 %**	**28**	**11 %**	**27**	**13 %**	**25**	**51 %**	**16**	**33 %**	**8**	**16 %**	**49**
Associations	*60*	*10 %*	*19*	*11 %*	*20*	*8 %*	*21*	*10 %*	*22*	*56 %*	*13*	*33 %*	*4*	*10 %*	*39*
Audit firms	*21*	*3 %*	*7*	*4 %*	*8*	*3 %*	*6*	*3 %*	*3*	*30 %*	*3*	*30 %*	*4*	*40 %*	*10*
Actuaries / consultants	**63**	**10 %**	**17**	**10 %**	**24**	**9 %**	**22**	**11 %**	**12**	**36 %**	**12**	**36 %**	**9**	**27 %**	**33**
Actuaries	*52*	*8 %*	*15*	*9 %*	*19*	*7 %*	*18*	*9 %*	*6*	*24 %*	*11*	*44 %*	*8*	*32 %*	*25*
Consultants	*11*	*2 %*	*2*	*1 %*	*5*	*2 %*	*4*	*2 %*	*6*	*75 %*	*1*	*13 %*	*1*	*13 %*	*8*
Subtotal	**575**	**91 %**	**151**	**90 %**	**233**	**90 %**	**191**	**95 %**	**178**	**51 %**	**113**	**32 %**	**57**	**16 %**	**348**
Others	**54**	**9 %**	**16**	**10 %**	**27**	**10 %**	**11**	**5 %**	**36**	**84 %**	**3**	**7 %**	**4**	**9 %**	**43**
Financial analysts	*15*	*2 %*	*4*	*2 %*	*4*	*2 %*	*2*	*1 %*	*9*	*82 %*	*0*	*0 %*	*2*	*18 %*	*11*
Investors	*10*	*2 %*	*2*	*1 %*	*10*	*4 %*	*3*	*1 %*	*5*	*71 %*	*1*	*14 %*	*1*	*14 %*	*7*
Individuals	*24*	*4 %*	*8*	*5 %*	*12*	*5 %*	*4*	*2 %*	*19*	*90 %*	*1*	*5 %*	*1*	*5 %*	*21*
Academics	*5*	*1 %*	*2*	*1 %*	*1*	*0 %*	*2*	*1 %*	*3*	*75 %*	*1*	*25 %*	*0*	*0 %*	*4*
Total	**629**	**100 %**	**167**	**100 %**	**260**	**100 %**	**202**	**100 %**	**214**	**55 %**	**116**	**30 %**	**61**	**16 %**	**391**

Panel B: Preparers group

Preparers	Total N	%	DP N	%	ED1 N	%	ED2 N	%
Companies	**197**	**61 %**	**40**	**51 %**	**90**	**64 %**	**67**	**64 %**
Insurance	*131*	*40 %*	*31*	*39 %*	*57*	*40 %*	*43*	*41 %*
Reinsurance	*12*	*4 %*	*1*	*1 %*	*7*	*5 %*	*4*	*4 %*
Mutual	*10*	*3 %*	*0*	*0 %*	*5*	*4 %*	*5*	*5 %*
Multi sector	*5*	*2 %*	*1*	*1 %*	*2*	*1 %*	*2*	*2 %*
Financial	*33*	*10 %*	*5*	*6 %*	*17*	*12 %*	*11*	*11 %*
Other	*6*	*2 %*	*2*	*3 %*	*2*	*1 %*	*2*	*2 %*
Associations	**127**	**39 %**	**39**	**49 %**	**51**	**36 %**	**37**	**36 %**
Insurance	*74*	*23 %*	*22*	*28 %*	*29*	*21 %*	*23*	*22 %*
Reinsurance	*1*	*0 %*	*1*	*1 %*	*0*	*0 %*	*0*	*0 %*
Mutual	*8*	*2 %*	*2*	*3 %*	*3*	*2 %*	*3*	*3 %*
Multi sector	*5*	*2 %*	*2*	*3 %*	*2*	*1 %*	*1*	*1 %*
Financial	*18*	*6 %*	*3*	*4 %*	*11*	*8 %*	*4*	*4 %*
Other	**21**	**6 %**	**9**	**11 %**	**6**	**4 %**	**6**	**6 %**
Total	**324**	**100 %**	**79**	**100 %**	**141**	**100 %**	**104**	**100 %**

The first 8 columns show constituent participation per consultation period, in absolute numbers (N) and percentages (%). The last 7 columns indicate the number of respondents (N) that sent one, two or three comment letters (CL) and percentages (%); the percentages are computed as the number of respondents who sent, one, two or three letters, divided by the number of different respondents in the last column. This panel shows the different type of preparers per consultation period, in absolute numbers (N) and percentages (%).

in the insurance project). This considerable involvement of preparers, especially insurers, accords with the economic consequences argument, as high volatility, particularly under exit value as in the DP, could heavily affect them (Kosi & Reither, 2014). While the new standard facilitates comparability, user unfamiliarity with the industry and diversified portfolios may contribute to their limited engagement (Georgiou, 2010). That said, some scholars suggest low user participation due to perceived procedural legitimacy issues (Durocher, Fortin & Côté, 2007; Allini, Aria, Macchioni & Zagaria, 2018), but since 2008 the IASB has made efforts to address these concerns. Between May 2013 and November 2013, the IASB conducted 44 specific user-focused discussions to facilitate opinion gathering, involving a total of 159 participants (26 % from Canada, 25 % from the USA, 18 % from Europe, 16 % from Asia, and some other smaller groups).[8] And from mid-May 2017 to the end of January 2018, another 76 discussions involving 375 users were convened (43 % from Europe, 23 % from Asia Pacific, and 6 % from North America, no separate data is provided for the USA).[9]

Given that regulators, the accounting profession, and actuaries/consultants collectively comprise around 40 % of respondents, our analysis centers on them and preparers, with 575 respondents (90 % of total).[10] Table 2, Panel B, offers a breakdown of preparers, predominantly individual companies (61 %), followed by associations, with a significant proportion being insurers (131 companies, 74 associations).

Table 3 delves into geographical representation. Organizations operating internationally are denoted as "International" –e.g., Big Four auditing firms, IOSCO. Participation is substantial from Europe (37 %), followed by North America (22 %), Asia (15 %), Australia and New Zealand (11 %), International (8 %), Africa (5 %), and South America (2 %), in line with prior research. Geographical representation appears to be linked to economic consequences, as countries adopting IFRS are more involved (Jorissen et al., 2013; Larson & Herz, 2013; Dobler & Knospe, 2016; Wingard et al., 2016). The 2008 financial crisis heightened politicization of accounting standards (Bengtsson, 2011), prompting European organizations to intervene in the IASB's due process, as the increase in responses to ED1 show (100 vs 69 to DP), aligning with institutional theory (Kenny & Larson, 1995; Baudot & Walton, 2013; Botzem, 2014; Crawford, Ferguson, Helliar, & Power, 2014; Giner & Arce, 2014; Palea, 2015). The convergence project may have been behind the broad US participation in the early consultation periods, thus fostering the IASB's legitimacy in the USA. And although there were fewer responses to ED 2 than to ED1, the reduction was less than that of Europeans (approximately 19 % versus 29 %). These figures do not suggest that the likelihood of convergence between IFRS and US GAAP had a discernible impact on the participation of US respondents.

Tables 2 and 3 provide insight into participation across consultation periods, with the highest participation in ED1 followed by ED2, highlighting that most respondents submitted a single letter. Although there are no major differences between groups, it stands out that 27 % of the actuaries/consultants sent three letters (the percentages in the other groups are around 15 %), in Table 2. Of note is the consistent of the non-tabulated views of the US participants in their two responses (44 %), and the multiple responses of the "international" respondents (28 %), in Table 3.

4.3. Responsiveness analysis

The responsiveness analysis scrutinizes the alignment of the four specified changes in Table 1 with respondents' stances during pre-change consultation periods. This evaluation enables an assessment of the through-put legitimacy. Table 4 comprises four panels, each corresponding to one of the aforementioned changes. Positions for each change are codified based on views expressed in the pertinent consultation period, as outlined in the Methodology section. It presents binomial tests concerning IASB's responsiveness, as well as Pearson χ^2 tests by interest groups and geographical locations.

Table 4, Panel A, summarizes positions concerning Change 1, which pertains to the treatment of profit recognition from DP to ED1. The binomial test reveals a significant ($p = 0.032$) preponderance of -1 coding compared to $+1$ coding (49 vs. 36). The IASB departed from the initial proposal (initial recognition of profit) in favor of an alternative (profit recognition over the coverage period), despite dissent from the majority. This change aligned with preparers, the sole group in which $+1$ exceeds -1 (22 vs. 13 times). This preference for coverage period recognition is coherent with findings by Post et al. (2007), indicating that initial recognition could increase volatility, while the new procedure introduces a form of income smoothing that is positively perceived in the market (Trueman & Titman, 1988; Tucker & Zarowin, 2006). The χ^2 test ($p = 0.000$) exposes significant intergroup disparities, suggesting that IASB accorded more weight to preparers' viewpoints.

Table 4, Panel A, refers exclusively to DP responses. However, when all responses are considered, a gradual shift in favor of profit recognition over the coverage period is observed, as those who initially opposed changed their stance. Ultimately, this solution garnered the most support, with 51 % favoring it, while 10 % favored initial recognition, and 6 % were open to both options. This pattern exhibited consistency across all studied groups (non-tabulated data).

From a geographical perspective, robust support for the change emanated from European and US stakeholders, comprising 42 % and 36 % (15 and 11 out of 36), respectively, of those endorsing recognition over time. The US group, mainly composed of preparers, demonstrated a stronger inclination towards this alternative. A χ^2 test affirms noteworthy disparities ($p = 0.010$) across all considered

[8] As stated in Agenda paper 2B, January 2014, of the IASB meeting, available at: https://www.ifrs.org/content/dam/ifrs/meetings/2014/january/iasb/insurance-contract/ap02b-feedback-from-users.pdf.

[9] As stated in Agenda paper 2B, February 2018 of the IASB meeting, available at: https://www.ifrs.org/content/dam/ifrs/meetings/2018/february/iasb/ap2b-insurance-contracts.pdf.

[10] We have replicated the study for the total number of respondents (629), and the results do not qualitatively change.

Table 3
Constituent participation in the three consultation periods per geographical origin.

Geographical origin	Number of letters per period								Number of letters per respondent						
	Total		DP		ED1		ED2		1CL		2CL		3CL		Total
	N	%	N	%	N	%	N	%	N	%	N	%	N	%	N
Europe	**215**	**37 %**	**61**	**40 %**	**90**	**39 %**	**64**	**34 %**	**67**	**52 %**	**38**	**29 %**	**24**	**19 %**	**129**
UK	*71*	*12 %*	*25*	*17 %*	*27*	*12 %*	*19*	*10 %*	*23*	*52 %*	*15*	*34 %*	*6*	*14 %*	*44*
France	*27*	*5 %*	*7*	*5 %*	*10*	*4 %*	*10*	*5 %*	*7*	*50 %*	*1*	*7 %*	*6*	*43 %*	*14*
Germany	*20*	*3 %*	*4*	*3 %*	*10*	*4 %*	*6*	*3 %*	*7*	*58 %*	*2*	*17 %*	*3*	*25 %*	*12*
Other countries (1)	*75*	*13 %*	*18*	*12 %*	*34*	*15 %*	*23*	*12 %*	*22*	*49 %*	*16*	*36 %*	*7*	*16 %*	*45*
European organizations	*22*	*4 %*	*7*	*5 %*	*9*	*4 %*	*6*	*3 %*	*8*	*57 %*	*4*	*29 %*	*2*	*14 %*	*14*
North America	**125**	**22 %**	**31**	**21 %**	**53**	**23 %**	**41**	**21 %**	**31**	**43 %**	**29**	**40 %**	**12**	**17 %**	**72**
USA	*76*	*13 %*	*18*	*12 %*	*32*	*14 %*	*26*	*14 %*	*17*	*40 %*	*19*	*44 %*	*7*	*16 %*	*43*
Others (2)	*49*	*9 %*	*13*	*9 %*	*21*	*9 %*	*15*	*8 %*	*14*	*48 %*	*10*	*34 %*	*5*	*17 %*	*29*
Asia	**85**	**15 %**	**15**	**10 %**	**34**	**15 %**	**36**	**19 %**	**31**	**55 %**	**21**	**38 %**	**4**	**7 %**	**56**
Australia & New Zealand	**61**	**11 %**	**18**	**12 %**	**25**	**11 %**	**18**	**9 %**	**22**	**56 %**	**12**	**31 %**	**5**	**13 %**	**39**
International	**47**	**8 %**	**15**	**10 %**	**16**	**7 %**	**16**	**8 %**	**10**	**40 %**	**8**	**32 %**	**7**	**28 %**	**25**
Africa	**31**	**5 %**	**9**	**6 %**	**11**	**5 %**	**11**	**6 %**	**11**	**58 %**	**4**	**21 %**	**4**	**21 %**	**19**
South America (3)	**11**	**2 %**	**2**	**1 %**	**4**	**2 %**	**5**	**3 %**	**6**	**75 %**	**1**	**13 %**	**1**	**13 %**	**8**
Total	**575**	**100 %**	**151**	**100 %**	**233**	**100 %**	**191**	**100 %**	**178**	**51 %**	**113**	**32 %**	**57**	**16 %**	**348**

The first 8 columns show constituent participation per consultation period, in absolute numbers (N) and percentages (%). The last 7 columns indicate the number of respondents (N) who sent one, two or three comment letters (CL) and percentages (%); the percentages are computed as the number of respondents that sent, one, two or three letters, divided by the number of different respondents in the last column. (1) Austria, Belgium, Czech Republic, Denmark, Finland, Ireland, Italy, Netherlands, Norway, Poland, Spain, Sweden, Switzerland. (2) Canada, Bernuda. (3) Mexico is included in the South American group because of its cultural, historical and linguistic characteristics.

Table 4
Responsiveness analysis.

Panel A: Change 1 from DP to ED1: recognition of profit

Interest groups	(−1)	0	(+1)	Geographical origin	(−1)	0	(+1)
Preparers	**13**	**44**	**22**	**Europe**	**17**	**29**	**15**
Regulators	**18**	**5**	**6**	**North America**	**9**	**9**	**13**
Accounting profession	**14**	**8**	**4**	*USA*	*2*	*6*	*11*
Actuaries / consultants	**4**	**9**	**4**	*Others*	*7*	*3*	*2*
Total	**49**	**66**	**36**	**Asia**	**7**	**7**	**1**
				Australia & New Zealand	**5**	**8**	**5**
				International	**7**	**8**	**0**
				Africa	**4**	**5**	**0**
				South America	**0**	**0**	**2**
				Total	**49**	**66**	**36**
Pearson χ^2, p = 0.000 for differences among groups				Pearson χ^2, p = 0.010 for differences among regions			
Binomial test (k <= 36), p = 0.032 (one-sided)				Pearson χ^2, p = 0.020 for differences among USA and Europe			

Panel B: Change 2 from ED1 to ED2: risk and margin

Interest groups	(−1)	0	(+1)	Geographical origin	(−1)	0	(+1)
Preparers	**22**	**68**	**51**	**Europe**	**0**	**34**	**56**
Regulators	**7**	**11**	**22**	**North America**	**22**	**22**	**9**
Accounting profession	**3**	**6**	**19**	*USA*	*16*	*13*	*3*
Actuaries / consultants	**2**	**8**	**14**	*Others*	*6*	*9*	*6*
Total	**34**	**93**	**106**	**Asia**	**9**	**14**	**11**
				Australia & New Zealand	**2**	**8**	**15**
				International	**0**	**11**	**5**
				Africa	**1**	**1**	**9**
				South America	**0**	**3**	**1**
				Total	**34**	**93**	**106**
Pearson χ^2, p = 0.567 for differences among groups				Pearson χ^2, p = 0.000 for differences among regions			
Binomial test (k >= 106), p = 0.000 (one-sided)				Pearson χ^2, p = 0.000 for differences among USA and Europe			

Panel C: Change 3 from ED1 to ED2: presentation

Interest groups	(−1)	0	(+1)	Geographical origin	(−1)	0	(+1)
Preparers	**22**	**85**	**34**	**Europe**	**12**	**51**	**27**
Regulators	**7**	**24**	**9**	**North America**	**9**	**31**	**13**
Accounting profession	**11**	**14**	**3**	*USA*	*3*	*22*	*7*
Actuaries / consultants	**7**	**11**	**6**	*Others*	*6*	*9*	*6*
Total	**47**	**134**	**52**	**Asia**	**8**	**18**	**8**
				Australia & New Zealand	**10**	**13**	**2**
				International	**3**	**12**	**1**
				Africa	**5**	**6**	**0**
				South America	**0**	**3**	**1**
				Total	**47**	**134**	**52**
Pearson χ^2, p = 0.055 for differences among groups				Pearson χ^2, p = 0.423 for differences among regions			
Binomial test (k >= 52), p = 0.071 (one-sided)				Pearson χ^2, p = 0.962 for differences among USA and Europe			

Panel D: Change 4 from ED2 to IFRS 17: presentation

Interest groups	(−1)	0	(+1)	Geographical origin	(−1)	0	(+1)
Preparers	**36**	**23**	**45**	**Europe**	**22**	**10**	**32**
Regulators	**9**	**3**	**26**	**North America**	**5**	**10**	**26**
Accounting profession	**18**	**1**	**8**	*USA*	*2*	*7*	*7*
Actuaries / consultants	**5**	**2**	**15**	*Others*	*3*	*3*	*9*
Total	**68**	**29**	**94**	**Asia**	**22**	**4**	**10**
				Australia & New Zealand	**7**	**0**	**11**
				International	**4**	**2**	**10**
				Africa	**7**	**2**	**2**
				South America	**1**	**2**	**3**
				Total	**68**	**29**	**94**
Pearson χ^2, p = 0.047 for differences among groups				Pearson χ^2, p = 0.000 for differences among regions			
Binomial test (k >= 94), p = 0.008 (one-sided)				Pearson χ^2, p = 0.290 for differences among USA and Europe			

(+1): agreeing with the change; (0): neutral; (−1): disagreeing with the change. In the first three changes, those respondents who preferred "both options" are treated as "no opinion", while "both options" is coded as +1 in Change 4 (the IASB's decision in IFRS 17), and those who opted for OCI or profit and loss account are coded as −1.

regions, as well as between Europe and the USA ($p = 0.020$). This alignment with US preparers could be interpreted as a strategic move to establish legitimacy within that jurisdiction.

A detailed review of selected letters highlights that the transition from exit value to expected value of fulfillment cash flows, and the subsequent shift in profit recognition, emerged as a significant concern voiced by representatives from the insurance sector. In response to the DP, both the EBF and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) requested greater discussion and alignment with other IFRS before imposing the recognition of "day-one gains" through the profit and loss account (DP Comment letters nos. 152 and 143, respectively). The IAIS, representing supervisors of approximately 97 % of global insurance markets, noted substantial worldwide diversity, highlighting "while IAIS members are unanimous that losses on inception should be recognized immediately, they differ regarding situations where a profit on inception might possibly arise" (DP Comment letter no. 148, paragraph 48). The BCBS also addressed the "profit at inception" issue, particularly if "extending these concepts to financial instruments in banks (e.g. loans)" (DP Comment letter no. 33). Consequently, the newly introduced treatment was highly demanded by industry supervisors and representatives and was well-received by EFRAG in their response to ED 1 (ED1 Comment letter no. 243).

Turning to the outcomes of Change 2, about the approach toward margin, Table 4, Panel B, reveals a significant predominance of +1 coding (106 vs. 34) according to the binomial test ($p = 0.000$). While slightly more than one third of respondents expressed no opinion, it appears IASB aligned itself with the preferences of the majority, favoring the separation of risk and margin, as indicated by responses to ED1. This preference was unanimous across all groups, with the χ^2 test ($p = 0.567$) indicating no intergroup differences. However, in terms of geographical distribution, 47 % (16 out of 34) of respondents opposing the decision were from the USA and favored the FASB's view, while 53 % (56 out of 106) who supported the separation strategy were from Europe. The χ^2 test underscores significant regional differences ($p = 0.000$), particularly between the USA and Europe, suggesting IASB's greater alignment with European participants. Notably, this is the only instance where the accounting profession advocated for the change.

CEIOPS, CESR (predecessor to ESMA), and EFRAG supported the separation between margins in their responses to ED1 (ED1 Comment letters nos. 32, 223, and 243, respectively). CEIOPS also emphasized the presence of explicit risk adjustments in other IFRS, underscoring the need for separate identification to ensure accurate measurement.

Addressing the presentation issue, Table 4, Panel C, outlines the results for Change 3, involving IASB's decision to mandate the presentation of volatility in OCI (ED2), a departure from its previous inclusion in the profit and loss account (ED1). Despite the large number of "no opinion", the +1 coding (52) slightly outweighs −1 coding (47), supported by the binomial test's low significance ($p = 0.071$). While differences in views exist among groups, preparers and regulators exhibit a higher frequency of +1 coding compared to −1 coding (34 vs 22 and 9 vs 7 times, respectively). Conversely, the accounting profession displays negligible interest in OCI. A significant difference is confirmed by the χ^2 test ($p = 0.055$) among respondent groups in their support for OCI. Notably, all groups exhibit a greater preference for neither OCI nor the ED1 solution, potentially shedding light on the later emergence of a dual option. Geographical analysis reveals no discernible differences among locations as confirmed by the χ^2 test ($p = 0.423$). Nevertheless, some variation emerges between IFRS-adopting jurisdictions, with European constituents favoring OCI over the profit and loss account, while Australian and New Zealand constituents favor the latter. However, both US and European respondents express a preference for OCI, corroborated by the non-significance of the χ^2 test ($p = 0.962$).

Upon analyzing the selected letters, it becomes evident that the ED2 proposal for presenting volatility in OCI faced opposition from relevant international stakeholders and the industry. EFRAG and IAIS advocated for companies to choose between two alternatives (ED2 Comment letters nos. 170 and 12, respectively), a view shared by Allianz and Hub Global Insurance Group (ED2 Comment letters nos. 108 and 95, respectively). This flexible approach, later integrated into IFRS 17, enables entities to align accounting treatment of insurance contracts with underlying asset treatment, mitigating accounting mismatches, consistent with EFRAG's stance.

Lastly, in Table 4, Panel D, we present results pertaining to Change 4, where the IASB finally opted to permit both options. The binomial test indicates a significant ($p = 0.047$) prevalence of +1 coding compared to −1 coding (94 vs 68), reflecting IASB's alignment with the majority favoring the dual option. Although there were less responses, due primarily to reduced participation from preparers, in contrast to Change 3, fewer respondents expressed no opinion (15 % vs 58 %). All groups, except the accounting profession, preferred the dual option. Significant intergroup differences are corroborated by the χ^2 test ($p = 0.008$). The diversity of preparers' opinions (45 in favor of dual option, 36 for OCI presentation) may stem from variations in insurers' business models. Indeed, a non-tabulated χ^2 test indicates significant differences between the opinions of life insurers and other insurers ($p = 0.001$). Geographically, the χ^2 test reveals statistically significant differences among all regions ($p = 0.000$), excluding the USA and Europe ($p = 0.290$), where a substantial number of respondents refrained from expressing an opinion. Within the USA, respondents favored the dual option (7 vs 2), while both Europe and Australia/New Zealand displayed a more balanced preference between the dual option and the single one, with the former slightly prevailing.

In sum, the responsiveness analysis underscores IASB's substantial alignment with the majority of stakeholders who submitted comment letters. This suggests that, apart from other concurrent participation mechanisms, the public consultation process exerted an influence on its decision-making process. In terms of through-put legitimacy from the standard setter's standpoint, the introduced changes were broadly sought-after by respondents who engaged with the published documents.

Three of the studied changes were broadly demanded by all groups of stakeholders: the separate margin approach outlined in ED2, the presentation of discount rate changes in OCI instead of the profit and loss account (ED2), and the flexible dual option within IFRS 17. The accounting profession stood apart in not supporting the latter two changes. Concerning the shift from DP to ED1, encompassing recognition of profit over the coverage period, although initially only advocated by preparers, it subsequently garnered support from other groups. Notably, robust advocacy for this shift emerged from US preparers.

Based on the figures presented in Table 4, the decision concerning the margin treatment in ED2 aligned with European constituents but not with their US counterparts, who favored the FASB's approach. As for the presentation of discount rate changes in OCI or adopting the flexible approach, unanimity existed across all groups. Regardless of whether European or US-based, preparers' opinions seemed to have prevailed in ED2, proposing presentation in OCI. Strong demand from US preparers is evident in this regard, while a more divided stance was observed among IFRS adopters. Thus, despite the cancellation of the convergence project, no change in attitude toward the USA can be inferred.

In analyzing comment letters, a noteworthy aspect emerged: respondents' perspectives on having one model versus two to account for insurance contracts, distinguished by short-term and long-term contracts, akin to the FASB's eventual resolution. Although the IASB did not solicit opinions on this matter, a substantial portion of respondents (27 %, or 168 respondents) provided explicit views in their letters. Of the 65 respondents favoring a dual model, 71 % were from the USA, with 89 % of them being preparers (34 % dealing with life and health contracts, 48 % with non-life contracts, and the remainder with multiline insurers).

5. Conclusion

The insurance industry has long been subject to rigorous regulatory oversight, encompassing substantial governmental intervention not only in operational procedures but also in accounting and reporting practices. Unlike many other sectors where costs are ascertainable and revenues are uncertain, the insurance industry exhibits an opposing pattern (Walton, 2014). These aspects partially explain the long development process of IFRS 17-*Insurance Contracts*, and the substantial pressures borne by the IASB, predominantly from the powerful industry. Furthermore, for some years the IASB and FASB approached the project together, but eventually diverged on distinct trajectories. The unfolding financial crisis and the termination of the convergence program also had a significant influence on the long and intricate development of the insurance project.

The development of IFRS 17 entailed the issuance of one DP and two EDs, facilitating not only an analysis of stakeholder participation but also an examination of changes across successive documents. This analysis serves to assess the contribution of due process in substantiating the legitimacy of the IASB, which encountered intense scrutiny amidst the financial crisis. Adopting a structural–functional approach, our study employs content analysis of publicly submitted comment letters during the consultation periods. Emphasis is placed on the largest groups of stakeholders, namely preparers, regulators, the accounting profession, and actuaries/consultants, to test the hypothesis regarding the IASB's responsiveness to articulated interests. To glean deeper insights into the viewpoints of key actors, qualitative analysis is conducted on select respondents such as BCBS, CESR, EBF, EFRAG, IAIS, and others. Our analysis refrains from exclusively inferring IASB decision-making from comment letters, acknowledging the potential correlation of responses with other events and informal activities. Supplementary sources include summaries of IASB meetings and joint IASB/FASB sessions outlined in the IStaR newsletter, in addition to publicly accessible information on the IFRS website.

IFRS 17 represents a significant departure from its predecessor IFRS 4, which was an *interim* standard that endorsed pre-existing practices. The new standard engenders far-reaching implications for recognition, measurement, and presentation, thereby eliciting extensive stakeholder engagement (Dobler & Knospe, 2013, 2016). Besides enhancing transparency, IFRS 17 introduces volatility in accounting figures, a critical concern (Kosi & Reither, 2014). This concern was mitigated through a transition from recognizing profit upfront upon contract initiation, as proposed in the DP, to recognizing it over the coverage period in ED1 (and IFRS 17). Additionally, IFRS 17 offers the option to employ either OCI or profit and loss for incorporating changes in discount rates.

Stakeholders, representing varying interests and geographical regions, actively participated in the due process by submitting comment letters across the three-consultation periods. This wide-ranging participation serves as an indicator of the procedural legitimacy of the IASB. As in previous analyses of standards with substantial impact on financial figures (Giner & Arce, 2012; Jorissen et al., 2012), comment letters predominantly emanated from preparers. Most respondents, except for actuaries/consultants, did not offer feedback on more than one document. In terms of geographical origin, Europe emerged as the primary contributor, trailed by North America, with a predominant focus on the USA. Although the FASB pursued an independent course concerning the insurance project, with separate issuance of exposure drafts, alignment persisted as long as the convergence program was active. Notably, the involvement of US stakeholders in the IASB's consultation process remained stable, with respondents frequently replying to more than one document in a consistent manner. The relatively limited participation of users and constituents from regions beyond Europe and, to some extent, from the USA, could be interpreted as a potential challenge to the IASB's input legitimacy. However, such a conclusion would be primarily numerical in nature. After the outbreak of the financial crisis and with the project already underway, the IASB was firmly committed to enhancing its visibility among users and its understanding of their needs. Accordingly, it organized a series of outreach activities aiming at gathering their views (Bhimani, et al., 2019). In particular, ED2 and even the final standard were subject to extensive discussions at numerous meetings specifically convened for users, covering diverse geographical zones. However, participation from US constituents waned subsequent to the publication of IFRS 17, possibly due to diminished legitimacy efforts by the IASB or reduced interest following the termination of the convergence program.

Concerning our hypothesis on the IASB's responsiveness to expressed interests, our findings indicate a propensity for alignment between the IASB's position and the consensus of engaged stakeholders during public consultations. This underscores the effectiveness of the due process. However, the IASB followed the position of preparers, contrary to other groups, on profit recognition, and contradicted the accounting profession to accommodate discount rate-related volatility in OCI. These outcomes are consistent with prior research demonstrating the IASB's independence (Giner & Arce, 2012; Bamber & McMeeking, 2016; Hewa et al., 2020). Although it might appear that preparers get more attention (Kwok & Sharp, 2005; Cortese, Irvine & Kaidonis, 2010), while the accounting profession get less, corroborating previous research findings (Bamber & McMeeking, 2016). Geographical analysis reveals a degree of alignment with European IFRS adopters, although the decision to recognize profit during the coverage period found favor among US respondents and was progressively embraced by the majority. Our analysis of the final two changes implemented in ED2 and IFRS 17 demonstrates congruity between US and European participants, substantiating their shared viewpoint. These outcomes do not suggest through-put legitimacy problems; rather, they underscore the IASB's ability to judiciously consider feedback, leading to consensus on key changes.

As an overall conclusion, our study posits that the formal due process underpinning the contentious IFRS 17-*Insurance Contracts* bolstered the IASB's legitimacy at a crucial time when its credibility faced multifaceted challenges. We explore the potential influence of the financial crisis and the convergence program on the process, attributing heightened emphasis on European stakeholders to the termination of the convergence project. However, we detect no discernible fluctuations in US participation or the IASB's responsiveness within the examined timeframe. Crucially, by preventing the dominance of any single stakeholder or interest group, due process emerges as a robust shield, preserving the integrity of the standard-setting process.

As with any scholarly inquiry, our study is not immune to limitations. Firstly, a host of additional dimensions underpinning the insurance project, which underwent modifications preceding the issuance of IFRS 17, remain unexplored herein. Broader consideration of these facets could potentially reshape perspectives and responsiveness to stakeholders. Secondly, the subjective nature of content analysis, inherent in the interpretation of comment letters, introduces an element of subjectivity. Mitigation measures encompass independent replication of content analysis, supported by Kappa statistics affirming consistency. Thirdly, our analysis acknowledges the existence of alternative participation avenues beyond comment letters, such as informal procedures and IASB-led meetings, potentially relevant to comprehending developmental changes. It is postulated that if these mechanisms influenced the process, they either converged with the respondents' attitudes towards public documents or had a limited impact.

Noteworthy is the protracted adoption process for IFRS 17 within the EU. EFRAG forwarded its endorsement advice to the EC in March 2021, albeit harboring minor reservations (EFRAG, 2021). Nine months later, the EC ratified Regulation 2021/2036, adopting IFRS 17. Both the advice and accepted standard refer to IFRS 17 as amended in June 2020 (IASB, 2020), reflecting the IASB's sustained efforts in response to stakeholder concerns and implementation challenges. A new exposure draft (ED3), *Amendments to IFRS 17*, was released in June 2019 (IASB, 2019), followed by the revised IFRS 17 a year later. While the issues scrutinized in this study remain unlinked to these amendments, they signal promising avenues for future research, inviting exploration into the delayed consideration of these aspects. All of this underscores the classification of IFRS 17 within the spectrum of standards posing implementation challenges for the IASB, akin to IFRS 9-*Financial Instruments* and IFRS 16-*Leases*.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data availability

Data will be made available on request.

Appendix A

Example 1. *An entity issues insurance contracts with a coverage period of three years that form a single portfolio. There are no acquisition costs; the coverage period starts when the insurance contracts are issued on January 1, X1. The expected present value (EPV) of premiums equals CU900, and are received when the contracts are signed. The entity estimates the non-financial risk adjustment at inception to be CU120. The entity estimates the EPV of future expenses to be CU600, the annual future cash outflows are CU200. For simplicity, the time value of money is ignored. It is also assumed that all claims are paid when they occur and happen as expected.*[11]

Under the assumption that the exit value and the fulfilment value are equal, CU180 is the residual margin, which according to the DP, would be the profit at inception. However, it would be a component of the liability under ED1, ED2, and IFRS 17.

At initial recognition, and in the three consecutive year-ends, the balance sheet will provide the following information:

[11] These examples are based on the Illustrative examples on IFRS 17 Insurance Contracts (IASB, 2017b).

Balance sheet	DP	ED1 = ED2 = IFRS 17
1/1/X1		
Cash	900	900
Insurance liability	(720)	(900)
Equity	180	——
31/12/X1		
Cash	700	700
Insurance Liability	(480)	(600)
Equity	220	100
31/12/X2		
Cash	500	500
Insurance Liability	(240)	(300)
Equity	260	200
31/12/X3		
Cash	300	300
Insurance Liability	—	——
Equity	300	300

This example shows how the recognition of insurance contracts varies between the DP and subsequent documents, including IFRS 17. Following the DP, "day-one gains" of CU180 are recognized, while subsequent annual profits equal CU40; however, according to the other documents, there are no "day-one gains", and annual profits equal CU100. This different treatment affects not only profitability ratios, but also leverage ratios.

As practices depend on local jurisdictions, it is not possible to speculate how the proposals would affect individual entities in different countries. That said, as mentioned in IASB (2017c), the discrepancies were huge, and among other differences, some companies recognized all premiums received as revenue, while others excluded from revenue any deposit component received through premiums.

Example 2. *Let's assume that in the above example, at the end of the second year the company remeasures the remaining risk adjustment to be CU90 instead of CU40 as initially estimated. According to the IASB (in both ED2 and IFRS 17) the difference between the new estimate and the previous estimate in relation to future services will be recognized immediately in profit and loss. However, following the composite margin approach preferred by the FASB, there is no remeasurement.*

Balance sheet	IASB	FASB
1/1/X1		
Cash	900	900
Insurance liability	(900)	(900)
Equity	——	——
31/12/X1		
Cash	700	700
Insurance Liability	(600)	(600)
Equity	100	100
31/12/X2		
Cash	500	500
Insurance Liability	(350)	(300)
Equity	150	200
31/12/X3		
Cash	250	250
Insurance Liability	——	——
Equity	250	250

Comparison of the two presentations at the end of X2 and X3 shows that when the two margins are separated and the risk margin is adjusted, the liability is also adjusted in X2 and the profit is reduced in CU50. However, if the margin is not remeasured, the profit in X2 remains unchanged while it is reduced in X3. This different treatment also affects profitability and leverage ratios.

Example 3. *An entity issues insurance contracts with a coverage period of three years that form a single portfolio. There are no acquisition costs; the coverage period starts when the insurance contracts are issued on January 1, X1. The entity receives premiums of CU1,500 when the contracts are signed. The entity invests the premiums received in fixed-income bonds with a duration of two years and expects a return of 10 % per year; it also expects to reinvest the proceeds from the maturity of the bonds in similar financial instruments with the same annual return. The entity expects to pay policyholders CU1,890 at the end of X3 (EPV of the insurance contract liability at inception equals CU1,420). Other aspects, including the non-financial risk adjustment, are ignored for simplicity.*

At the end of X1, when the carrying amount of the insurance contract liability is CU1,562, the market interest rate falls from 10 % per year to 5 % per year; the entity revises its expected future cash flows to be paid in X3 to CU1,802. Thus, at the end of X1 the revised amount of the insurance contract liability is CU1,635 ($1{,}802 \div 1{,}05^2$). The entity should make an adjustment to the insurance contract liability of CU(73).

At the end of X1, the adjustment to the insurance contract liability could be recognized in the profit and loss cccount (option a) or in OCI and allocated over the rest of the duration of the contracts (option b). In the second case, the entity uses a constant rate of interest 7.42 % a year, which is calculated as $((1{,}802 \div 1{,}562)^{1/2} - 1)$.

The effect of the change in the discount rate on the expected future cash flows to be paid, and the carrying amount of the insurance contract liability at year end is shown below:

	Initial recognition	End of X1	End of X2	End of X3
Estimates of the future cash flows at the end of X3	1,890	1,802	1,802	1,802
(A) EPV of future cash flows at the current market revised rate of 5 % after initial recognition (10 % at initial recognition)	1,420	1,635	1,716	1,802
(B) EPV of future cash flows at the constant rate of 7.42 % after initial recognition (10 % at initial recognition)	1,420	1,562	1,678	1,802
Difference (A) – (B)	0	73	38	0

The two alternatives for recognizing the effect of the interest rate change on the insurance contract liability are as follows:

a. Recognize the adjustment as an expense of CU(73) in the Profit and Loss Account in X1.
b. Recognize the adjustment of CU(73) in OCI in X1, and then allocate the adjustment to the Profit and Loss Account over the duration of the contracts, i.e. CU35 and CU38, in X2 and X3, respectively.

The effect of the two alternatives a) and b) for recognizing insurance finance income or expense arising from the fulfilment cash flows period is as follows:

	X1	X2	X3	Total
Option a)				
In Profit and Loss Account	(215)	(81)	(86)	(382)
Option b)				
In Profit and Loss Account	(142)	(116)	(124)	(382)
In OCI	(73)	35	38	0
In Total Comprehensive Income	(215)	(81)	(86)	(382)
Amount accumulated in OCI at the year end	73	38	—	

It can be observed that when the adjustment due to the change in the rate of interest CU(73) is recognized directly in the Profit and Loss Account the volatility of net income is higher than when it is first included in OCI and then transferred to the Profit and Loss Account.

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