

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

18 August 2008

Dear Sir David,

We welcome the opportunity to comment on your Discussion Paper – Reducing Complexity in Reporting Financial Instruments (the “Discussion Paper”). This letter has been drafted by the European Insurance CFO Forum, which is a body representing the views of 20 of Europe’s largest insurance companies and the Comité Européen des Assurances (CEA), representing 94% of the European Insurance market. The letter represents a consensus view on issues specifically impacting the European insurance industry.

Eliminating accounting mismatches in both the balance sheet and the income statement remains an important issue for the insurance industry. To achieve this objective, the industry currently makes use of all the current measurement categories within IAS 39. Removal of any of these categories whilst accounting for insurance liabilities remains unresolved would therefore introduce new accounting mismatches and hence, in our view, result in financial information that is less relevant to users.

The CFO Forum and the CEA believe that before any significant changes can be made to the current accounting for financial instruments a number of matters must be addressed. For insurers, there is a key link between liability and asset measurement and it is difficult to comment sensibly on asset valuation without a clear view on how liabilities arising from insurance contracts will be measured and reported as a “Phase II” Insurance Contracts standard has not yet been finalised.

The definition of fair value within IFRS is yet to be finalised and there are a number of matters, such as the appropriateness of referencing to a hypothetical market and the counter intuitive accounting achieved through inclusion of own credit risk within the fair value of liabilities, which still need to be adequately addressed. As we stated in our response to the Fair Value Measurement discussion paper, the consideration of “where to” use fair value cannot be considered in isolation from “how to” measure fair value.

Reporting financial performance is another key concern. Whilst fair value is an appropriate valuation for certain items on the balance sheet, the CFO Forum and the CEA believe that the income statement should provide users with relevant information to assess the performance of the business. There are two particular performance aspects to be taken into account when dealing with fair value of financial assets and liabilities:

- It may not be appropriate to take all unrealised gains and losses through the income statement. The available-for-sale category should be maintained unless another suitable way of presenting financial performance in a fair value context can be identified.
- It may not be appropriate to take into account all gains at inception in profit or loss.

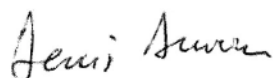
Only when all of the above matters have been addressed can a sensible debate be held on changes to the principles of financial instrument measurement.

The Discussion Paper asserts that accounting for financial instruments is currently complex and this necessitates change, both in the intermediate and long term. While the CFO Forum and the CEA believe reducing complexity is a good goal, we do not believe it should be the driver for determining accounting change. Whilst it is an important factor, the more important drivers are to ensure the financial statements give users relevant, reliable and comparable information. Therefore we believe that measurement should be driven by how financial instruments are managed, with financial instruments which are managed together being measured on a comparable basis. The nature of these measurement bases can only be determined once the matters set out above have been finalised.

We do not agree that the proposed solutions necessarily result in less complexity. Determining fair value in the current market turmoil has illustrated the current complexities with financial instrument measurement, for example, in relation to valuation of assets in thinly traded markets. Most financial instruments are by their very nature complex and a simple accounting solution may not reduce that complexity. For example, guidance on when to use a measurement basis currently contained within the accounting standard will be replaced with equally complex guidance on the definition of fair value measurement. In conclusion, the CFO Forum and the CEA believe that a number of matters must be addressed before any significant change is made to the current reporting regime. We do not believe that the existing measurement categories should be reduced or replaced in the short term.

If you have any queries or questions that you would like to raise in relation to the matters covered in this letter, please feel free to contact us.

Yours sincerely



Denis Duverne  
Chairman of CFO Forum



Alberto Corinti  
CEA Deputy Director General /  
Director Economics & Finance