Group Accounting/Controller

bhpbilliton

BHP Billiton Limited
BHP Billiton Centre 180 Lonsdale Street
Melbourne Victoria 3000 Australia
GPO Box 86A
Melbourne Victoria 3001 Australia
Tel +61 1300 55 47 57 Fax +61 3 9609 3015
bhpbilliton.com

31 October 2003

Kevin Stevenson
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH, United Kingdom

Dear Kevin

ED 5 Insurance Contracts

This exposure draft does not have particular reference to our industry sector, and therefore we will not comment on the questions raised. We do however have some comments to make with reference to the consistency this standard has to other standards within the suite of IAS/IFRS standards currently issued and exposed.

The exposure draft in paragraph 11 refers to loss recognition and using current estimates of future cash flows. The paragraph also states the [draft] IFRS "does not specify which cash flows should be included, whether or how the cash flows should be discounted, or whether or how the cash flows or discount rate should be adjusted for risk and uncertainty." This principle is contrary to other standards that refer to future cash flows within the suite. For example:

1. Under IAS 36 Impairment of Assets, recoverable amount is defined as "the higher of an asset's net selling price and its value in use". In turn value in use is defined as "the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life." With respect to future cash flows, considerable definition is provided in that "the discount rate (or rates) should be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the asset. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted. A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the enterprise expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed enterprise that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review."

2. Under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, "where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation. Because of the time value of money, provisions relating to cash outflows that arise soon after the balance sheet date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material. The discount rate (or rates) should be a pre-tax rate (or

> rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted."

Both of these examples that refer to future cash flows within the IAS/IFRS suite of standards, require discounting where material, and provide significant guidance with respect to the factors that determine the appropriate rate to be applied. We propose that ED 5 provide similar guidelines to promote a consistent framework.

Yours sincerely,

Nigel Chadwick
Vice President Group Accounting / Controller