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

ED 5 Insurance Contracts

Dear Sir David,

Finansinspektionen (FI), the financial services authority in Sweden, supports the overall contents and ambitions of ED5. However there are some issues of concern that we would like to raise, which are related to the need for a transition under orderly conditions of insurance companies' accounting practices

Investment contracts

A unit linked-product may provide for a cash payment that is equal to the value of a specific financial asset such as a share in a mutual fund, a stock index, a bond index or a combination thereof. When a liability is linked in such a way to an external index, the only relevant measure of its value is fair value. It is difficult to see that the amortised cost model would produce consistently meaningful results.

The suggestion thus is that investment contracts whose notional value closely traces mutual fund shares; a stock index et cetera should be measured at fair value. An entity previously measuring such contracts at fair value must continue to measure them at fair value. This of course presupposes that IAS 38 is amended so that acquisition costs may be recognised as an intangible asset when measuring investment contracts at fair value.

FI believes that entities that have recognised deferred acquisition cost related to investment contracts should be allowed to continue that practice until phase 2 is completed.

Suggestions for disclosures

According to (draft) IAS 1 paragraph 116 an entity shall in certain cases disclose in the notes information about dividends proposed or declared. Information shall also be disclosed regarding the amount of any cumulated preference dividends not recognised. In analogy with those requirements FI proposes that corresponding information should be disclosed regarding future payments to holders of contracts with discretionary participating features, when surplus arising from the participating feature has been classified as equity.

FI also proposes that, in phase 1, entities should be required to disclose information that would allow the user of the accounts to assess the level of prudence applied in calculating insurance liabilities. When appropriate the disclosure of the overall level of prudence should take deferred acquisition costs into account.

We would be pleased to discuss our proposals with you at your convenience.

Sincerely,

Gent Jansson

Peter Fredby