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

In Prague, 30th October 2003

Re: Comment Letter on IASB ED 5 Insurance Contracts

The Chamber of Auditors of the Czech Republic welcomes the opportunity to submit its comments to the International Accounting Standards Board regarding the Exposure Draft ED 5 Insurance Contracts, published by the International Accounting Standards Board for comments in July 2003.

We have reviewed the Exposure Draft and generally we support the approach described in the above document. However, there is the number of specific issues raised in the Exposure Draft we have any comments or take the different view of them.

The biggest problem of the draft standard is the mismatch between assets and liabilities. There is no easy solution for phase one, as

- any massive assets reclassification to "held-to-maturity" category would be problematic
- fair value measurement is not yet fully available for insurance liabilities.

Allowing amortised costs valuation for assets backing insurance liabilities would decrease the mismatch, but is still not sufficient solution. Reference to US GAAP, which uses different valuation approach for assets and liabilities, has limited validity. The critical factor in US GAAP is the area of shadow accounting. It is crucial that the re-valuation of assets and liabilities is done consistently through profit or through changes in equity, otherwise the new standard creates huge artificial volatility of profits and equity.

In addition, the mismatch between reinsurance and direct insurance valuation approach should be avoided. It is not possible to change valuation approach towards reinsurance without considering direct insurance valuation approach. Only financial reinsurance should be covered by Phase I.

<u>*Question 2 – Definition of insurance contract*</u>

The definition of insurance contract is reasonable. However, it would be useful to include further guidance on the definition due to the following issues raised:

- Existence of insurance risk is tested from the individual contract point of view (rather than on the portfolio level). Does it mean that individual contracts are classified as insurance/investment, or the portfolio with say 95 % policies satisfying insurance definition could be classified as insurance? The other version would be to classify seemingly identical, in the same way administered, policies into different categories.

- Should riders be separated from main business? What are the criteria for such separation? If rider is added to product otherwise classified as financial instrument, does the product become insurance product? Is it important, whether the rider is legally stand-alone policy, if it could be sold only as rider?

Question 3 – Embedded derivatives

Embedded derivatives should not be separated in the phase I. Instead of that we recommend the Board to consider adding more guidance to the loss recognition test, which should include risks resulting from embedded derivatives.

We hope you´ll find our comments helpful and we would be pleased to discuss any aspect of this letter you may wish.

Yours sincerely,

Ladislav Langr
Vice-president of the Chamber of Auditors of the Czech Republic