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UBS AG
Postfach
CH-8098 Zürich
Tel. +41-1-234 11 11

Will Widdowson
Stockerstrasse 64
Zurich
Tel. +411-234-5565
Fax+411-234-2044
William.widdowson@ubs.com

www.ubs.com

International Accounting Standards Board
(IASB)
Peter Clark
Senior Project Manager
30 Cannon Street, London EC4M 6XH
United Kingdom

October 31, 2003

ED-5

Dear Mr. Clark:

UBS appreciates the opportunity to comment on the Exposure Draft 5, *Insurance Contracts.* UBS utilizes IFRS as its primary reporting framework and is one of the largest entities of its kind to apply IFRS. We strongly support the work of the IASB in its development of a high quality set of financial accounting standards.

As there is no current IFRS standard on the accounting for insurance contracts, we believe that this project is of utmost importance in order to ensure consistency and comparability among insurance enterprises, especially in light of the fact that all EU listed entities will be converting to IFRS on January 1, 2005. However, we believe that on its own ED-5 is insufficient in achieving this effect, as it does not provide uniform accounting guidance. Further we believe that it is inappropriate to exempt certain types of contracts from the fundamental framework and existing principles of International Accounting Standards. However, we understand that developing comprehensive accounting guidance for insurance contracts is complex and controversial and are aware that the IASB seeks to provide interim guidance prior to the European adoption of IFRS in 2005. We therefore can accept this standard as a bridge on the road to high quality accounting guidance and urge the IASB to work quickly to complete a comprehensive standard that will improve the quality of financial statement reporting. Below we provide general comments on several provisions of the Exposure Draft.

We do not support the inclusion of financial guarantees as insurance contracts that provide for specified payments to reimburse the holder for a loss because a specified debtor fails to make payment when due. We do not view these guarantees as insurance contracts or derivatives. We are concerned that if viewed as an insurance product it may result in guarantees being accounted for at fair value when Phase II is completed. We believe that these contracts are appropriately accounted for under IAS 37, *Provisions,* *Contingent Liabilities and Contingent Assets,* and suggest that the Board amend ED-5 to exclude such contracts from its scope.

We strongly support the elimination of catastrophe and equalization provisions, as these types of provisions are overly prudent and are contradictory to the rules under IAS 37, currently applied by other institutions. The proposed rule will ensure that insurance companies provide for losses based on an incurred loss model and will eliminate the possibility for managing earnings through the provision accounts.

We support the requirement to disclose the fair value of insurance assets and insurance liabilities. We believe that this is important information for users of financial statements. However, we would like to point out that the Exposure Draft provides no guidance on how fair value should be determined. We believe that the lack of guidance on how to measure fair value could result in industry inconsistency and therefore hinder comparability among insurance companies. We understand that development of principles for measuring fair value is difficult and complex, however we believe that this is essential for proper implementation of any standard. We understand that the IASB intends to address this issue in Phase II of the insurance project. We urge the IASB to complete this guidance prior to the effective date of the fair value disclosure requirement. If the IASB does not intend to provide such guidance, at a minimum the Standard should require a detailed disclosure of the methodology applied to measure fair value.

We support the requirement to bifurcate embedded derivatives and agree that the appropriate measurement for derivatives is fair value. We agree with the exception that an embedded derivative that is itself an insurance contract should not be bifurcated and measured at fair value, as it would be inconsistent to require a different accounting treatment for embedded insurance contracts from stand-alone insurance contracts.

Once again, we appreciate the opportunity to comment. Please contact us at your conv enience if you would like to discuss any comments that we have. Your contacts on this topic are Ralph Odermatt +1 41-1-236-8410 and John Gallagher +1 203-719-7092.

Regards,

UBS AG

William Widdowson
Managing Director
Group Tax and Accounting Policies

Ralph Odermatt
Managing Director
Accounting Policies and Support