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Mouvement des Entreprises de France
MEDEF

CL 109

Sir David TWEEDIE
Chairman IASB

IASB
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JK/SJ/11.2003/31
RE : Exposure draft on Insurance Contracts

Paris, Friday, November 7, 2003

Dear Sir David,

We would like to thank you to give us the opportunity to comment the exposure draft on Insurance Contracts.

We fully support the detailed and convergent answers that have been submitted separately by the FFSA (Fédération Française des Sociétés d'Assurances) and the CEA (Comité Européen des Assurances). Therefore we do not wish to repeat the comments with which we fully concur. In your numerical analysis of the respondents comments, please count us as agreeing or disagreeing just as the FFSA does in their detailed answer

The exposure draft raises nonetheless some issues that are not specific to insurance activities on which we wish to draw your attention.

1- The mismatch issue

The final standard to be issued out of ED5 is undoubtedly a transition standard, which tries to cope as well as possible with the lack of standard specific to insurance contracts in the IFRS literature. As phase 2 of the insurance contract project is already on track, it was indeed reasonable to exempt entities active in the insurance industry from the IAS 8 hierarchy, in order to avoid too frequent and costly changes in accounting standards. We therefore welcome and support that insurance contracts go on being accounted for just as they are today, as an interim measure until phase 2 is completed.
Accounting treatments defined within specific sets of accounting standards are generally designed on a basis of global consistency in the principles underlying the valuation of assets and liabilities. Sustaining such a consistency is essential to report a consistent set of financial

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statements, especially in those situations where, as it is the case in the insurance industry, assets held are managed in order to back liabilities.

We therefore urge the Board to consider carefully and favourably the proposals made by insurers in trying to safeguard the necessary consistency in their financial statements. The creation of a specific category of assets ("Assets held to back insurance contracts"), valued at amortised or historical cost would indeed contribute to the consistency needed. We are not convinced by the arguments put forward by the Board in the basis for conclusions (§109 – 114) that state that such a separate category would impair transparency towards users. The Board indeed claims that it "would lead to a need for arbitrary distinctions and complex attribution procedures". However the Board has authorised in the amended IAS 39 to let management designate any financial instrument that they decide to account for at fair value. Designation and documentation are no more no less complex or arbitrary when pointing at one accounting treatment or another. Moreover in the case for which we advocate, management is able to explain the rationale behind the choices made and report at the same time on the asset management that is conducted.

We also wish to stress that there might be other circumstances than insurance liabilities that need to be backed by an appropriate management of financial asset holdings. Some entities that face significant long-term decommissioning liabilities, for example, may decide to hold a specific portfolio of financial assets as backing assets. Such assets do not meet the definition of available for sale assets as defined in the Basis for Conclusions (§BC109 (b)): "those that may be sold in response to, for example, changes in market prices or a liquidity shortage". Measurement at fair value is therefore not an adequate measurement since it deals with the portfolio of assets as if they were held short term which there are not. The volatility in equity that results from such an accounting requirement is meaningless and may either confuse the user of financial statements or require from him to restate the financial position of the entity after proper elimination of the holding gains and losses reserve.

We therefore recommend the Board to create within IAS 39 a fifth category of financial assets "Assets held for backing X liabilities" that would be carried at amortised or historical cost and that would solve not only the issue of insurance contract liabilities but also the issue of long term liabilities that entities choose to back with appropriately designated financial assets.

2- The sunset clause

We disagree with the sunset clause that the Board has decided to include in the proposed standard, since such a clause is contradictory with the reasons put forward by the Board for issuing the standard. In BC 5 (a), the Board indicates that an interim standard was needed in order to avoid "requiring major changes that may need to be reversed when the Board completes phase 2".
Had the Board decided not to issue a phase 1 standard, insurance contracts would have had to be accounted for in accordance with the IAS 8 hierarchy. This would have led entities to undertake heavy and costly IT changes in order to implement accounting policies different from present Gaaps. The decision of the Board to issue a standard is therefore most welcome.
Would the Board maintain the sunset clause in the final standard, the Board would de facto undo the benefit of the interim standard. IT changes need to be planned well in advance and IT

changes require that the final requirements be known precisely and in detail. The sunset clause would require from entities to plan IT changes no later than 2005, when the final requirements

will not be known and by far. Entities would therefore have no other choice than to undertake implementing other acceptable Gaaps, consistent with the IAS 8 hierarchy, which is exactly what was meant to be avoided.
Moreover the responsibility for issuing the phase 2 standard lies with the IASB and entities cannot be expected to cope and bear the consequences, financially and operationally, of delays which are in the sole control of the Board.
We therefore strongly ask the Board to remove the sunset clause.

3- The disclosures of insurance liabilities at fair value

No disclosure should ever be requested in a standard, when the conditions in which the information will have to be produced are not yet known. Such a requirement cannot lead to relevant and reliable information to be provided to the users. Once the Board will have finalised what a measurement at fair value of insurance liabilities should be, the Board will have the opportunity to issue a proposed amendment to the interim standard in order to suggest that those disclosures be required. The date of application would then be decided and proposed with all necessary knowledge. That might be 2006 if the Board completes what they think they should complete, that would be later if the Board fails to do so. There again the Board has full authority and ability to achieve what they feel is right without imposing to entities the burden of an undefined requirement to be complied with.

Should you wish further comments or developments, please let us know and we would promptly answer to your requests.

Yours sincerely,

ACTEO

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Le Président

P/O ***Jean KELLER***

Le Délégué Permanent

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