



LETTER OF COMMENT NO. 19

To: Adam Van Eperen  
FASB  
ajvaneperen@fasb.org

Reference: ECO-ACC-09-052

Subject: FCAG questionnaire

Brussels, 2 April 2009

Dear Mr Van Eperen,

The CEA, the European Federation of insurers and reinsurers, represents all types of insurance and reinsurance undertakings, e.g. pan-European companies, monoliners, mutuals and SMEs that account for approximately 94% of total European premium income. We represent preparers of financial statements but also answer your questionnaire in our capacity as large institutional investors.

We believe that the questionnaire raises key questions. However, in light of the limited time available to prepare a response, we have chosen to focus on three questions, rather than answering the full questionnaire. Nevertheless, we would like to state that we are keen to continue the dialogue with the Financial Crisis Advisory Group (the 'FCAG') after the submission of this letter.

**Question 2 - If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.**

Our position remains that we do not see the need for anti-cyclical measures in general purpose financial statements. It is important to note that anti-cyclical measures in a prudential regime do not necessarily affect the measurement of assets and liabilities but may instead focus on regulatory capital requirements. If some supervisors decided to impose anti-cyclical measures for supervisory purpose, we believe that those should not be reflected in the general purpose financial statements. Therefore we would support option (6).

**Question 4 - Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?**

From the point of view of European insurers, it is important to distinguish two situations.

In the current IFRS framework, under Phase 1, where there is no final accounting standard for insurance contracts, we believe it is critical to maintain a mixed measurement attribute as defined by IAS 39. Indeed, this mixed attribute model is essential to allow a company to limit accounting mismatch by using on the asset side the measurement basis used for the liabilities side.

However, we believe that the current IAS 39 should be significantly improved, in particular in the area of impairment and in respect of the fair value option.

On the impairment, we believe that some rules should be reviewed. Notably, we believe that the impairment basis of available for sale assets and subsequent reversal should be re-examined and treated consistently. Similarly, the rules on impairment between IFRS and US GAAP should be aligned. Finally, we encourage the IASB to review the "Once impaired, always impaired" in particular in the case of equity securities.

As for the fair value option, we note that the US and International Accounting Standards Board accept that, in rare circumstances, management could be allowed to reclassify assets out of the trading portfolio. We believe that the same possibility, subject to same conditions, should be given to the assets for which the fair value option has been exercised at initial recognition.

We have expressed those views to the IASB as part of the CEA contribution to the IASB/FASB Roundtables end of 2008.

Once the Phase II for insurance is completed (and on the assumption that the final standard is based on some sort of market consistent valuation for insurance liabilities), we believe that it is important that management can reflect in the valuation of assets and liabilities the way each business (and its corresponding assets and liabilities) are managed. In principle, we believe that in general this would lead to an increased use of fair value. We believe that this should also trigger a proper debate in the future on how and where the changes in fair value should be reported (OCI, income statement) and we are not in this letter pre-judging what our position would be in this respect. For some of our business amortised cost would better reflect the economic reality and therefore we believe it is important to retain this possibility as well. Hence some form of mixed attribute model will need to be retained in the long term.

**Question 5 - What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?**

We strongly believe that the IASB should maintain an adequate due process when introducing changes to the IFRSs.

Fast track procedures may be envisaged but should nevertheless contain some previously established due process. Those procedures should be strictly limited to exceptional cases and should prohibit retrospective application. Changing accounting rules is a complex process which needs proper reflection and consideration by all stakeholders. We are particularly concerned about the risk of creating unintended consequences, particularly in the current context in which many issues dealt with by the IASB are cross-cutting between projects and are therefore difficult to consider in isolation. Criteria should include a minimum consultation period, maintaining a principles-based approach, consideration of the cost/benefit of proposals as well as the practicalities of implementation. Consideration to some form of post implementation review following a 'fast-track' process should also be given.

As mentioned in the introduction to this letter, we find that the questions raised by this questionnaire are completely relevant for us and therefore we are committed to continue exchanges of views with the FCAG in the future.

Yours sincerely,



Alberto Corinti  
CEA Deputy Director General / Director Economics & Finance