# **Swiss Re**

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# Comments on the Exposure Draft on Fair Value Measurements

Swiss Re, as one of the world's leading reinsurers, supports the FASB's objective to develop US GAAP Financial Accounting Standards. Swiss Re Group's financial statements are published in accordance with Swiss GAAP (FER). Some of our subsidiaries, as well as a number of our clients use US GAAP as their reporting standard.

We have the following comments on the Exposure Draft on Fair Value Measurements (the ED).

## 1. Own credit rating

Under the ED, the estimate of fair value of a liability should consider the effect of the entity's credit standing so that the estimate reflects the amount that would be observed in an exchange between willing parties of the same credit quality.

We agree that when an entity incurs certain liabilities in exchange for cash, the role of its credit standing can be observed, and that an entity with a strong credit standing will receive more cash, relative to a promise to pay, than an entity with a weak credit standing. We understand that if the discount rate used for subsequent fair value measurement of such liabilities does not include the effect of the entity's credit standing, the entity will have to recognise a loss immediately after initial recognition.

However, we believe that reflecting the effect of the entity's credit standing in the fair value measurement of selected liabilities may not produce the desired results in the existing accounting system where not all assets and liabilities are measured at fair value and not all assets and liabilities are recognised in the balance sheet. For example, a change in the entity's credit standing is often accompanied by a change in the fair value of some unrecognised intangible assets such as the entity's franchise value (also known as present value of future growth opportunities or internally generated goodwill). As changes in the entity's credit

standing impact the fair value of liabilities and franchise value in opposite directions, recognising the impact on the fair value of liabilities, but omitting the impact on franchise value, would not enhance the quality of the financial statements.

We also think that the proposal is not necessarily consistent with the going concern concept as it would require the entity to recognise that it will be unable to meet its liabilities in full. This issue is particularly relevant to some classes of senior liabilities such as insurance liabilities which are commonly expected to be settled in full as long as the insurer maintains an investment grade credit rating.

Overall, we believe that it is premature to decide on the inclusion of the effect of the entity's credit standing in the fair value measurement of non-traded liabilities as an acceptable framework for estimating and recognising the fair value of non-traded liabilities in the financial statements has not yet been fully developed.

#### 2. Multiple valuation models

For level 3 estimates, the ED requires the use of multiple valuation techniques consistent with the market approach, income approach and cost approach, if the information necessary to apply multiple valuation techniques is not available without undue cost and effort. An entity should then evaluate the results of those techniques and explain significant differences as a basis for the resulting estimate.

We believe that having to apply all three approaches may not always be desirable if reliable industry practice has emerged to determine the fair value of a particular class of assets or liabilities using a single approach. In our opinion, selecting and consistently applying one suitable model is often practicable. We also doubt that the quality of fair value estimates would significantly improve if entities were required to always apply three different approaches.

We recommend that the Board converge with existing IFRS guidance (paragraphs AG 74-76 in IAS 39) which does not require the use of multiple valuation techniques.

#### 3. Blockage factor

For large positions of unrestricted securities with quoted prices in active markets held by brokerdealers and certain investment companies, AICPA's Audit and Accounting Guides permit fair value to be estimated using blockage factors in limited circumstances. On the other hand, FAS 115 prohibits the application of blockage discounts to unrestricted securities with quoted prices in active markets. Our general preference is to keep the current guidance unchanged.

During the clearance procedures of AICPA's Audit and Accounting Guide "Audits of Investment Companies" (the Guide), the Board allowed entities within the scope of the Guide whose accounting policies prior to 31 May 2000 included the use of blockage factors to continue this practice. The Board stated that this provision would continue to be in force until the fair value measurement project is finalised. The impact of the ED on the above provision is not sufficiently clear. We would like to ask the Board to clarify if entities within the scope of the Guide whose accounting policies prior to 31 May 2000 did not include the use of blockage factors will be permitted to apply such factors as a result of the ED.

## 4. Significant events occurring before the end of a reporting period

According to the ED, significant events occurring after the close of business on the last trading day but before the end of the reporting period should be taken into account when determining the fair value of traded securities.

We are concerned that this provision would introduce subjectivity in the valuation of traded securities, resulting in inconsistent measurement of the same security by different entities. The proposal would simultaneously undermine the reliability of the model of measuring traded securities at quoted prices.

Usually, the time span between the close of a market and the end of the reporting period is not significant. We do not believe that this justifies the proposed requirement as the impact is not likely to be material. We encourage the Board to keep the existing guidance that allows entities to value traded securities using guoted prices from the last trading day of the reporting period.

We appreciate the opportunity to comment on the ED. Please do not hesitate to contact me if you have any questions regarding our comments.

Yours sincerely,

M. Sveus.

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