Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

18 August 2008

Dear Sir David,

We welcome the opportunity to comment on your Discussion Paper – Preliminary Views on Amendments to IAS 19 *Employee Benefits* (the "Discussion Paper"). This letter has been drafted by the European Insurance CFO Forum, which is a body representing the views of 20 of Europe's largest insurance companies and the Comité Européen des Assurances (CEA), representing 94% of the European Insurance market. The letter represents a consensus view from those companies on issues specifically impacting the European insurance industry.

The need for change in the short term

We support the IASB's longer term aim of improving the accounting for employee benefits in conjunction with the FASB as part of the on-going global convergence of accounting standards. We recognise that this is an important area that requires both boards to devote appropriate resources to developing effective solutions. However, we would question whether it is most effective, from conceptual and practical points of view, to implement an interim solution at this stage.

We note that some of the changes proposed to current employee benefit accounting appear not to pursue convergence, while others would increase divergence, with the generally accepted accounting principles in the United States (US GAAP). For example, changes to the corridor approach and the introduction of the contribution-based promise category represent changes that are not mirrored in US GAAP. Accordingly, implementing such changes at this stage will result in entities reporting under IFRS not enjoying a "level playing field" with entities reporting under US GAAP in these areas. We do not believe that this increased divergence will provide useful information to the users of financial statements.

Furthermore, we would question the appropriateness of adopting short term solutions in some areas of pension accounting whilst not fully addressing others. We believe that a piecemeal approach to improving accounting for employee benefits could result in inconsistencies, not only with US GAAP and other reporting bases, but also within IFRS. The creation of the contribution-based promise classification, and the proposed measurement and presentation bases set out in this respect, which differs from current defined benefit accounting, and the proposed changes in the recognition of actuarial gains and losses, are likely to result in significant practical difficulties for companies who have grown accustomed to current IAS 19 requirements. Furthermore, the likelihood of subsequent changes to the defined benefit measurement model in the next stage of the Employee Benefits project would be expected to result in further changes to systems and other practical implications for companies. There would be clear benefits in addressing these issues at the same time and therefore we suggest that no changes are made to the current treatment of actuarial gains and losses in the short term.

We do acknowledge, however, that the current rules-based classification of pension arrangements between defined benefit and defined contribution in IAS 19 is unsatisfactory and can produce non-economic outcomes. Accordingly, we would support efforts to introduce a more principles-based classification to address these cases in the shorter term, whilst keeping the existing measurement bases. It may be worth exploring, for example, an approach based around the concept of significance of risk of further contributions being required by an employer, building on the similar concept of significant risk transfer in IFRS 4 for the definition of an insurance contract.

We also note that the IASB are currently carrying out a number of significant projects which will require detailed consideration of many of the issues underlying the proposals in this Discussion Paper. These projects include Fair Value Measurement, Insurance Contracts, the Conceptual Framework and Financial Statement Presentation. We believe that there is a danger that fundamental decisions underlying those projects may be taken as part of this interim Employee Benefits project, or at least precedents created by early decisions, rather than these decisions being afforded the appropriate consideration in their own right. Equally, decisions taken at this stage as part of this project may require subsequent amendment depending on the outcome of other projects.

Financial Statement Presentation

The Discussion Paper sets out three proposed approaches to the presentation of defined benefit promise gains and losses in the income statement and other comprehensive income. In terms of the liability for a contribution-based promise the Discussion Paper goes further and sets out a preliminary view, namely that all changes in the value of the liability and all changes in the fair value of any associated plan assets should be presented in the income statement. The CFO Forum and the CEA do not support such an approach for either defined benefit or contribution based promises.

We believe that before any decision on presentation can be taken in the context of the Employee Benefits project, the IASB should develop an overriding principle for the recognition of gains and losses in all aspects of financial reporting. At present there are a number of areas where the treatment of gains and losses are being considered, notably gains and losses arising from financial instruments and insurance contracts. We believe that this general issue should be covered in the financial statements presentation project and no decision on the presentation of pension costs should be made until this wider debate has been resolved. Accordingly, we do not propose to comment further on the presentational aspects of the Discussion Paper at this stage other than suggesting the retention of the current approaches for the presentation of defined benefit promise gains and losses using the corridor, in the income statement and other comprehensive income in the short term. Notwithstanding this point, we would support detailed consideration, as part of the Financial Statements Presentation project, of a presentation model that utilises other comprehensive income in addition to the income statement.

In addition, it should be noted that the member companies of the CFO Forum and the member companies of the CEA members are very significant investors and hence users of financial statements. In this capacity we would also oppose short term presentational changes to the reporting of employee benefit liabilities.

Measurement of contribution-based promises and the link with the Insurance Contracts model

Notwithstanding our view that no changes should be made to the measurement bases for pension liabilities in the short term, we note that there are similarities in the model proposed in this Discussion Paper for contribution-based pension promises with that set out in the Discussion Paper, Preliminary Views on Insurance Contracts ("the Insurance Contracts Discussion Paper"), issued in May 2007. You will be aware that we have significant concerns with several aspects of the measurement model proposed in the Insurance Contracts Discussion Paper and a number of the issues raised in that respect are relevant in relation to the proposals in the Discussion Paper for contribution-based promises. We set out below some common observations relating to the two models:

- The Board proposes that estimates of cash flows used to measure contribution-based promises should be based on assumptions that, as far as possible, should be consistent with market factors. We believe that it is important to define when assumptions are capable of being observed in the market. In our view only economic assumptions based on financial indices, such as interest rates, will follow readily observed market data. For other assumptions, such as expenses, the attempt to create a "market" leads to an approach that is too theoretical that will result in information that is neither understandable nor relevant to users.
- The Discussion Paper suggests that the measurement of a contribution-based promise should incorporate the effect of risk other than the risk that the terms of the benefit promise change. This would include asset, demographic and credit risk (as discussed below). There is limited guidance on how this risk will be measured although it is apparent that it is based purely on the risks associated with the entity fulfilling the obligation. We have argued in respect of insurance contracts that the margin for risk and uncertainty should represent the cost of risk and should not include any additional compensation associated with the hypothetical transfer of the contract.
- The IASB have proposed that the measurement of a contribution-based promise should reflect credit risk, which we interpret to be the risk that an entity cannot fulfil its obligations to the pension holders. The CFO Forum and the CEA do not believe that credit standing should be considered in the valuation of liabilities and expressed this view in our responses to both the Insurance Contracts Discussion Paper and the Fair Value Measurement Discussion Paper. We believe that reflection of credit risk in the measurement of liabilities introduces counterintuitive accounting, notably recognition of a profit or loss based on changes in an entity's own credit standing. The nature of pension and insurance obligations, in particular, is such that it would be wholly inappropriate to build the likelihood of default to pensioners or policyholders into the measurement of those obligations.
- The measurement attribute for contribution-based promises is set out in the Discussion Paper as "fair value assuming the terms of the benefit promise do not change". We believe that there are many similarities between the accounting for insurance contracts and contribution-based promises and note the consistency of the building blocks proposed to determine the measurement in the two discussion papers. We do not believe that a transfer based concept is appropriate for either insurance contracts or pension obligations on the basis that such obligations are not expected to be transferred and hence the measurement attribute should better reflect the expected outcome of the obligation, being, in most cases, settlement over their lives .

If you have any queries or questions that you would like to raise in relation to the matters raised in this letter, please feel free to contact us.

Yours sincerely,

Denis Duverne Chairman of CFO Forum	Alberto Corinti CEA Deputy Director General / Director Economics & Finance