

To: Messrs Hans van der Veen & Peter Clark
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Policyholder participation - classification

Brussels, 28 November 2008

Dear Hans and Peter,

We are writing to you in connection with the Board's forthcoming consideration of classification issues relating to policyholder participation. Although our letter of 30 November 2007 covers this issue, we thought a separate short summary might be helpful to the Board. We also attach the relevant extract from the joint CEA/CFO Forum letter.

The appropriate treatment of contracts with discretionary participating features is a key issue for the European insurance industry. The CEA has amongst its member's both shareholder owned and mutual insurers so is well placed to comment on this issue.

As you know, the position of the European insurance industry (our members account for 94% of total European premium income) is that the basis of insurance accounting should be the contract (we address separately how the contract boundary is defined), and that all flows expected to arise under the contract should be included in the measurement of the contract. It is in this way that insurers' accounts best reflect the economic substance of their business.

We consider that not only should all premiums expected from policyholders under existing participating contracts be included, but also all expected payments to policyholders under these contracts as well. We do not consider that current enforceability should be the primary test for the recognition of expected premiums, nor do we consider that it should for future participating contract payments. The key, instead, is that the contract imposes a stand-ready obligation on the insurer and the purpose of the accounting is to reflect flows that result from that obligation. Hence, we consider that bonus payments that are expected to be made to participating contract policyholders, but are as yet undeclared and so are uncertain as to timing and amount, should be included in an insurer's liabilities. We believe that this basis of accounting is consistent with the current fulfilment value approach that the Board considered as a possible measurement attribute at its meeting in September.

We recognize the needs of users of accounts to understand the key elements in the best estimate of the liability, which includes a number of elements such as guaranteed benefits, and declared and undeclared bonuses. Supplementary information would need to be given – for example, sensitivity analyses to show the impact of changes in key assumptions.

We believe that it is important that all participating contracts, whether classified as insurance or investment, should be accounted for consistently under the new Phase II accounting standard and this issue should be addressed in setting the scope of the standard.

We note that the Board is also to discuss the position of mutual insurers. We can see no rationale for mutual insurers to adopt different practices from shareholder-owned companies in the financial reporting of discretionary participation features. We consider that our substance-based approach is as consistent with mutual insurers' member-financed structures as it is with shareholder-financed structures.

Mutual entities generally have raised a concern that the unique features of their financing structures are not properly taken into account by the Board, for example in its project on financial instruments with the characteristics of equity. Such mutual entities do not consider that their members' interests, which they regard as a form of equity financing, should be treated as part of their liabilities. Neither do mutual insurers consider that participating contract policyholder-based financing, to the extent that it is not expected to result in payments to policyholders, should be treated as their liability. Our substance-based approach achieves this. Only payments under participating contracts that are expected to be made to mutual insurer members are accounted for as the mutual insurers' liabilities. Otherwise, members' interests in mutual insurers are treated as the mutual insurers' equity.

Yours sincerely,



Isabella Pfaller
Chairman CEA Accounting Steering Group



Hugh Francis
Chairman of the CFO Forum Insurance Accounting Group

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