

Victoria Blackburn  
International Accounting Standards Board  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom

10 Novembre 2008

Dear Victoria,

This letter is drafted on behalf of the European Insurance CFO Forum, which is a body representing the views of 20 of Europe's largest insurance companies. It represents a consensus view on issues relevant to the European insurance industry. We are taking this opportunity to respond to your request for agenda items for the forthcoming Roundtable. We believe that we have set out the key issue that we would expect to be discussed, our suggested solution and the rationale for our proposed changes, in our letters to Sir David Tweedie on 10 October and 30 October. I have reiterated the key points made in that letter below for your convenience. I have also made reference to other issues referred to in the European Commissions' letter to the IASB dated 27 October which also represent important agenda items.

We stated in our letters our concerns with the continued application of mark-to-market accounting instead of mark-to-model for those financial instruments for which there is no longer substantial market liquidity given that mark-to-market values can be significantly lower than the genuine economic value of the positions. Furthermore, we noted that accounting classification and business intent are no longer aligned and that the assessment of solvency is also impacted by current accounting rules. Therefore, we proposed some measures designed to reflect the business intent and the value of the instruments held and therefore attempt to dampen the negative spiral of the current crisis.

We urged the IASB to allow reclassification, at fair value on the date of transfer, from the "fair value through profit and loss" (FVTPL) category to another category for both trading assets **and** assets designated at fair value by option if there is an unequivocal change in business intent to hold the instruments in the foreseeable future as a result of the lack of market liquidity leading to market conditions which no longer permit entities to manage the assets and have the corresponding performance evaluated on a fair value basis or giving rise to newly created mismatches situations.

The fair value option can be used under very specific circumstances, mainly in cases of mismatches, the application of asset and risk management strategies based on fair value, or the existence of embedded derivatives. In addition, the election of the fair value option is also limited to those cases where fair value can be determined reliably. **The rationale behind the reclassification of assets out of the financial instruments measured at fair value upon inception category is that there should be a possibility to reclassify such assets under the rare circumstances where *the conditions which permitted the financial instruments to be designated at fair value through profit or loss at inception are no longer met.*** Such circumstances include precisely the current market environment, where especially assets and risk management strategies were strongly modified over recent months.

We would therefore fully support reclassifications of financial instruments from the fair value option category, either into assets Held-to-maturity, Available-for-sale or Loans & Receivables. **Such reclassifications would not only be in line with the existing underlying rationale behind the IAS 39 designations, but would also allow a better reflection of the economic reality and asset management strategy of companies.** Keeping assets under the categories elected upon acquisition when the precise reasons for which such elections were made possible no longer exist could mislead investors and could result in an aggravation of the current downward spiral of extreme volatility, increase in spreads, asset value decreases and negative earnings, given the weight of insurance companies in the economy.

We note that the European Commission in their letter of 27 October was also pointing out areas of inconsistencies regarding impairment or embedded derivatives and we would also support the resolution of these issues as well.

We believe that these proposals should represent a global solution to a global problem and therefore both the IASB and FASB should include it in their accounting standards. It is also imperative that these proposals are adopted as an immediate solution and it is our strong preference for these changes to be enacted by the IASB.

We acknowledge that the IASB have made recent efforts to react to the credit crisis. However, from an insurer's standpoint, the measures taken until now may have been seen as useful to banks (October 13 amendment) or users (additional proposed disclosures) but do not specifically address certain issues for the insurance industry.

We look forward to having the opportunity to answer any questions you may have on these issues at the coming roundtables.

Yours faithfully

Amélie Breitburd  
Chair of the Technical Working Group  
European Insurance CFO Forum