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

15 January 2009

Dear Sir David,

Investments in Debt Instruments – Proposed amendments to IFRS 7 – Exposure Draft

We have considered this exposure draft and welcome the opportunity to comment on it. 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. We set out below a number of concerns with both the content and timing of these proposals.

We do not believe that the proposed disclosures meet the objectives of preparers and users who suggested that changes were required to the basis of impairment accounting for Available for Sale (AFS) debt securities. Applying the current AFS impairment model leads to the recognition of losses relating to liquidity spreads where companies have no intention of disposing of the assets. As you are aware a different approach is applied to assets carried at amortised cost. We believe that consistency should be sought in the approach to accounting for impairment for all financial assets. The proposed disclosures do not address these concerns around impairment measurement and, as indicated below, are likely to be confusing and have unintended consequences that will obscure the Board's stated objective of providing information to users about disaggregation of impairment losses.

We firmly believe that additional disclosures should not be employed in an attempt to fix deficiencies in an accounting measurement model. Accordingly, we feel that it is necessary to address the inconsistencies in measurement first by developing a cohesive approach to dealing with impairment for all financial assets. We believe that this objective should be addressed urgently by the IASB and FASB rather than requiring these additional disclosures, which may well become redundant if the impairment measurement model is revised. This would allow disclosures to be considered alongside the wider issues relating to impairment in a coherent and comprehensive manner.

We consider the introduction of a pro forma profit impact as a required notes disclosure to be fraught with difficulty and misleading to users. We are concerned that provision of this information to users may well cause significant confusion given the existing inconsistencies around impairment and the fact that the proposed disclosures will obscure the effect of impairment losses amongst pro-forma information. We do not believe that the proposed profit disclosures will provide meaningful information to users of financial statements. Furthermore, they will create misleading information by disclosing a pro-forma profit based on fair value for assets which are not managed on a fair value basis. These proposals are unprecedented as they require alternative profit information on different measurement bases to be disclosed in the notes to the accounts which is confusing to users, requiring them to “pick and choose” their preferred profit figure.

As insurers we are particularly concerned about the unintended consequences of the profit disclosures. For example, presenting a pro-forma profit figure as if all investments in debt securities had been classified as financial assets at fair value through profit or loss would be misleading since, for insurers, it disregards the impact of fair value movements of assets on the corresponding liabilities. Insurers have made accounting policy choices to mitigate as far as possible accounting mismatches hence a single sided adjustment would give a misleading view of the overall P&L impact. Furthermore, some insurers apply shadow accounting, as permitted by IFRS 4, to match the recognition of unrealised gains and losses on AFS assets with the related effects on liability valuations, deferred acquisition costs or intangible assets. The proposed pro-forma profit figures would be similarly misleading to the extent that they do not reflect the necessary adjustments for shadow accounting.

We are concerned that the proposed prescriptive disclosure requirements are contrary to the principles underlying much of current IFRS thinking, including IFRS 7, whereby accounting and disclosure is reflective of the management of a business or “through the eyes of management”. If financial assets are not managed on a fair value basis then we do not believe it is appropriate to require disclosure of “pro-forma” profit based on those assets being carried at fair value. This proposed requirement does not appear to adhere to a “principles-based” approach to accounting standards.

In addition to our significant concerns with the proposals themselves, we do not support the proposed effective date of annual periods ending on or after 15 December 2008. We do not believe it is appropriate to issue an exposure draft proposing mandatory disclosures on a retrospective basis immediately prior to a financial year end with an extremely limited comment period. Whilst several elements of the proposed disclosures are already captured and collected and are hence available to entities, others are not readily available, require data not currently held and will require significant additional work to determine. Groups have already collected, or are in the process of collecting, data from subsidiaries and business units for 2008. It will prove extremely impractical, if not impossible, to collect new data, such as the profit implications of alternative impairment basis calculations and the amortised cost of impaired available for sale securities, in the necessary timeframes for 2008 reporting. In addition, for US registrant companies, there is the significant added complication of being compliant against Sarbanes-Oxley requirements for changes in procedures that were not required during the reporting period.

The exposure draft recognises some of these impracticalities by not requiring comparatives as a transitional measure, but we note that balance sheet comparatives will still be required, even if not disclosed, in order to calculate pro forma profit disclosures.

In summary, we do not believe that the Board should adopt these proposed disclosure requirements into IFRS 7 without significant reassessment of the objectives and implications, which will require time and appropriate due process.

Should you have any questions regarding the contents of this letter please feel free to contact me.

Yours sincerely

Philip Scott
Chairman of European Insurance CFO Forum

Cc Robert Herz, FASB