



The European Insurance CFO Forum
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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

1 September 2009

Dear Sir David,

We are taking this opportunity to comment on your Request for Information (the "request") on the feasibility of applying an expected cash flow approach to impairment accounting. We understand that the Board is addressing the impairment of financial assets as part of its project to replace IAS 39 Financial Instruments: Recognition and Measurement. 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 hence provides the views of a significant proportion of the European insurance industry. The insurance industry is a very significant holder of financial assets and the issue of impairment accounting is hence a fundamental one to the industry on which we have commented previously.

It is difficult to properly assess the practical issues associated with the expected cash flow approach

We understand that the Board's objective in requesting information is to determine whether the expected cash flow approach is clearly defined and operational and we have provided comments in this respect below. We would like to make it clear at the outset that we do not currently have a view on the conceptual attraction of an expected loss model over an incurred loss model or vice versa. This position partly reflects the fact that we do not believe that any such consideration can be made without a holistic picture of the IASB's IAS 39 proposals, encompassing classification and measurement, impairment and hedge accounting, and partly the lack of clarity around some key aspects of the model as articulated.

The piecemeal approach to IAS 39 replacement being adopted by the IASB is such that we are unable to properly assess the conceptual and practical issues surrounding the expected loss impairment model in the context of the whole accounting model for financial instruments. For example, the current classification and measurement proposals issued by the IASB may significantly broaden the scope of the financial

assets to which these impairment proposals would apply from those currently accounted for at amortised cost. Accordingly, whilst we can begin to form a view as to how the proposed approach would apply to loans and receivables, as currently designated, we are unable to properly assess the implications of a wider application to debt securities, including corporate bonds, currently accounted for as Available for Sale. We believe that the differences between bond portfolios and banking book portfolios must be fully considered in developing the expected loss model.

In addition, whilst we have set out some practical concerns below, we do not believe that aspects of the model have been clearly enough articulated in the request to allow for a full assessment.

An expected loss approach as currently articulated is likely to present some significant operational issues

As is apparent from the content of the request the IASB anticipate application challenges in adopting an expected cash flow impairment model. We concur with this view and below we have sought to explain some of the complexities we anticipate and the concerns we have about implementing the proposed model.

Ultimately we believe that the current lack of clarity around how such a model might operate is such that we are unable to fully comment on the feasibility or otherwise of adopting such an approach. In particular, we do not believe that the guidance is clearly defined in respect to the recognition and measurement of cash flows and the issue of collective versus individual impairment assessments.

We believe that the proposals should include more explicit guidance for the estimation of expected future cash flows, particularly on how to determine expected default rate assumptions. While IAS 39 considers market observable information to be more reliable than that which is internally generated, we believe that expected loss estimates should be determined by the entity based on historic data for similar assets of the same terms (including internal or external ratings). We do not believe that a requirement to use market participant data would be either feasible or increase the accuracy of loss estimates.

In addition, the Board should state whether expected cash flows are proposed to be probability weighted or not. The answer to this question will influence the practicability of the approach.

Consideration of these questions and the inclusion of more specific guidance will reduce the extent to which preparers of financial statements apply divergent techniques to achieve desired results and assist the Board in achieving its reduced complexity objectives.

We believe that the practicability of the model, notably data and resource availability, the impact on systems and the resultant costs and effort will be significantly influenced by the ability to apply the proposals on a collective versus an individual basis. As the request points out, the interaction between individual and collective impairment assessments in the event of a loss incurred on specific assets in the portfolio is likely to present application challenges. Both approaches identified in question five of the request present logistical challenges and would result in additional costs, particularly in respect of debt securities. In both instances, it would be necessary to record incurred losses for issuers in default on an individual basis so that the underlying loans or

securities can be removed and evaluated separately from the remaining portfolio. We would also note that these practical issues are likely to be exacerbated for insurers by the reliance placed on third party data providers by many insurance companies.

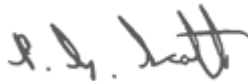
We believe it would be appropriate for the proposals to allow for either a portfolio or an individual assessment, depending on the ability to identify homogenous risk factors which can be applied on a risk-aligned portfolio basis. Either way, the accounting remains complex since movements between risk-aligned portfolios will need to be tracked and specific expected losses on individual financial instruments will have to be removed from portfolios so that the underlying portfolios improved credit worthiness can be effected.

Based on an initial assessment of the model we believe that insurers would require extensive system enhancements to allow individual assessments to be carried out. The extension of the amortised cost category proposed in the Financial Instruments: Classification and Measurement exposure draft is likely to see a number of financial assets, including corporate bond portfolios, falling into this category and hence, if adopted, requiring impairment accounting under the expected loss approach.

In summary we believe that the practical issues associated with adopting an expected loss model should not be underestimated and these issues should be addressed in further articulation of any such model.

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 me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. G. Scott', written in a cursive style.

Philip G Scott
Chairman – European Insurance CFO Forum