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

Ref: ECO-ACC-11-110

Subject: **Supplement to Exposure Draft "ED/2009/12 Financial Instruments: Impairment"**

4 April 2011

Dear Sir David,

This letter has been drafted jointly by the CEA which is the European Federation of insurers and reinsurers, which represents all types of insurance and reinsurance undertakings, accounting for approximately 95% of total European premium income and the European Insurance CFO Forum, which is a body representing the views of 21 of Europe's largest insurance companies. Accordingly, it represents the consensus views of a significant element of the European insurance industry.

Insurance companies are not only preparers but are also some of the largest institutional investors, hence users of financial statements.

We welcome the IASB deliberations to date and the direction of the overall discussion, in particular the expected loss model and the efforts to seek convergence with FASB on these issues. We emphasize the importance of a principles-based impairment model that can be applied to all instruments eligible for amortized cost measurement under IFRS 9, including not only loans but other types of fixed income investments such as bonds, which generally make up a significant share of asset portfolios for long-term investors such as insurance companies, pension funds, endowments and foundations.

Focus on banking loans

We believe that the proposals contained in the supplement focus on bank loans. Typically, the distinction between good book and bad book is part of a bank business model, not of insurance companies or other entities applying IFRS 9. Insurers hold significant investments in listed bonds (corporate and government). We are concerned that the Boards will re-deliberate other issues (such individual asset or bond portfolios) based on this supplement, which is designed for bank loans.

On the contrary, we believe that the IASB should develop a principles based approach which is equally applicable and relevant for all financial instruments eligible to use the amortised cost category, not only for banking loans, and then assess individual specificities of some industries.

Split between a good book and a bad book

Insurers typically monitor the total return of their investment portfolios and do not manage credit risk for their investments in fixed income instruments separately. Hence to enable insurers to divide their portfolio between good book and bad book, criteria similar to IAS 39 impairment criteria for fixed income instruments will have to be used. This results in insurers using an incurred loss model to establish their 'bad book'. The IASB has however concluded that applying the impairment triggers in IAS 39 results in unwanted diversity in practice.

When an insurer invests in assets, it invests with the idea that all investments would fall into the good book. However, as time passes, certain investments do not perform (for example, default) and move into the bad book. For these assets we agree that a time proportional approach for recognising losses may not be appropriate. Our concern however, is the prescriptive approach proposed for apportioning assets between the two books. It appears to be based on banking rules for large portfolios of originated loans. We believe that any expected loss model should include a strong principle rather than detailed rules in how to determine which assets should be subject to immediate recognition of incurred losses. This would enable insurers and other large holders of assets such as corporate bonds, to apply the model on an operational and comparable basis.

Introduction of a floor for the good book

Our understanding is that the intention of the floor is to ensure an adequate level of provisioning for financial assets that may have early loss emergence patterns. As the intention does not relate to all financial assets within scope of the Supplement (e.g. early loss emergence patterns may only be observed at certain points in the economic cycle or may only be associated with certain types of credits such as loans to early stage companies), it can therefore be questioned whether the proposed floor requirement is sensible to mandate for all preparers at all times. Alternatively, if a significant loss is considered imminent, certain preparers may consider a transfer to the bad book appropriate, thereby obviating the need for a floor under many circumstances.

Proposed practical expedients are likely to facilitate the initial and on-going implementation of the standard

We welcome the Board's proposals with regards to decoupling and options to allocate expected losses based on a straight-line or annuity method, discounted or not, in the time-proportional model. We agree that these practical expedients would alleviate some of the operational burden that would have resulted from the proposals in the 2009 ED.

Do not hesitate to contact us for any further information.

Yours sincerely,

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