Ms H Eastman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

6 October 2008

Dear Ms Eastman,

We welcome the opportunity to comment on the draft IASB Expert Advisory Panel report dated 16 September 2008 (the "report" or "EAP report"). 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. The letter represents a consensus view on issues relevant to the European insurance industry.

Scope of the report and due process

We recognise the objectives of the IASB in establishing an expert advisory panel and preparing a report on practices used for measuring and disclosing financial instruments when markets are no longer active. We welcome the report's stated purpose to provide useful information and educational guidance for measuring and disclosing fair values and that it is not intended to establish new accounting requirements.

In light of the current market environment we fully acknowledge the desire for a prompt response from the IASB to the recommendations of the Financial Stability Forum and we can understand the pressures to reduce the level of due process around the report compared to other IASB documentation. However, we are concerned that such an approach creates the danger that a lack of time for full consideration of the proposals, and ability to respond thereto, might diminish the quality and usefulness of the output. In this regard we fully support the non-mandatory nature of the proposals and believe that it is important that the proposals do not become "quasi-mandatory" for all holders of financial instruments. We would recommend that the report explicitly clarifies this point and also refers to the issue of "proportionality" reflective of particular entities exposures to this area.

We also believe that it is important that the proposals in the report are not considered to be interpretations of current IFRS standards and, equally, do not form precedents for future IFRS projects which will, in time, need to go through their own full due process. Thus, for example, whilst we would expect the fair value measurement project to take into consideration the proposals in this report around determination of fair values in inactive markets, we would not anticipate the report's proposals, having been accepted for the purposes of this piece of guidance, to be adopted into the new standard without full consultation and debate. Questions such as what represents a fair value in an inactive market situation and what constitutes a forced transaction are not straightforward and require full and detailed consideration as part of the fair value measurement project. There are a variety of views that have been, and will continue to be, expressed around this subject and it is important that all are taken into consideration.

As an example, whilst drafting this letter we note that the SEC/FASB released comments on 30 September on this subject which place less emphasis on current observable transactions than is suggested in the EAP report. For example, we have concerns with regard to the anticipated defeasance plans when transactions involving toxic assets are planned to take place. Questions arising in this regard include:

- Should these transactions be considered as orderly?
- Should they still be considered as reflecting market transactions?
- What could be the consequences on valuation of similar assets held by insurance companies?

The paper should make clear that not only are questions of the similarity in nature of the instrument, or the time elapsed since the last transaction, considered to be key in determining its fair value by comparison to market transactions. In addition the similarities (or differences) in the conditions surrounding observable transactions should be taken into account when considering potential adjustment to observable prices (i.e. transactions of similar instruments may take place in different markets leading to differences in fair value). The language used in the SEC/FASB release is more appropriate to deal with such potential future transactions.

We note that the IASB made public statements on 2 and 3 October relating to their response to the credit crisis. These statements included an indication that the IASB believed that the SEC/FASB comments of 30 September were consistent with IFRS and that future guidance on fair value measurement will be consistent with the SEC/FASB release. Reference was also made to the possible impact of the proposed defeasance plans on the valuation of assets and liabilities and the IASB also indicated a willingness to consider the quality of existing fair value information provided to investors and any impact of financial reporting on the credit crisis as part of the project to replace IAS 39. To the extent appropriate we assume that the EAP report will be amended to reflect these issues, notably the consistency with the SEC/FASB release.

Furthermore, we note that some of the report’s suggested disclosures are also being proposed as changes to IFRS 7 and it is important that these latter changes are fully considered as part of the due process surrounding IFRS 7, notably through the proposed exposure draft with a suitable comment period and it is not seen to pre-determine the outcome. We also need to understand the differences between the propositions discussed in this report and those proposed by IFRS 7.

Principles-based disclosure framework

We support the need for transparent disclosure of the fair value measurement process employed by companies and the results thereof. However, we believe that it is important that such disclosure is relevant to users and is consistent with the principles-based nature of IFRS. In particular, we support the “through the eyes of management” framework for financial instruments disclosure that was introduced by IFRS 7. This standard remains in its infancy and it is important that new requirements, whether mandatory or best practice, do not undermine the underlying principle of that standard by suggesting that all entities provide a prescriptive list of disclosures (such as the suggested roll-forward analysis of “level 3” instruments, which for most insurance companies is less relevant than for the banking industry). It is important that the report does not appear to suggest a minimum standard for all entities notwithstanding their particular circumstances. Such a situation will result in provision of information that does not reflect the specific nature and internal management of the business and is hence not useful for users of financial statements.

As an example, we would consider it necessary to distinguish between entities with a significant portfolio of “level 3” financial instruments (those measured using unobservable inputs) and those with smaller portfolios of such instruments. Given these variations in circumstances a blanket prescriptive requirement to provide a reconciliation of movements in such instruments is not considered useful or relevant information. This proposal is likely to lead to considerable implementation issues as “level 3” related information is not fully identified as a key characteristic of assets in the preparers’ systems. It would also be better if the disclosure principles articulated what the disclosures were trying to achieve e.g. extent to which fair value gains and losses are attributable to unobservable inputs, whether financial instruments, have had to be reclassified between fair value hierarchies, due to changes in economic and market circumstances,

Furthermore, whilst the application of a fair value hierarchy provides a useful analysis of the process undertaken to determine fair values it should be noted that entities would not expect to manage their business on this basis, instead applying consideration of the risk inherent in financial instruments. The level of unobservable inputs used in the valuation process is not directly related to risk. Again we would highlight the “through the eyes of management” principle of IFRS 7 as a more appropriate guideline.

Location of proposed disclosures

We note that the report does not deal with the proposed location of the suggested disclosures. Hence it is unclear whether the expectation would be that the disclosures are all provided in the financial statements or whether it would be considered equally acceptable to provide the information elsewhere in the report and accounts or in separate documents or releases. We believe that many entities currently voluntarily make much of the proposed information available from a variety of sources and would not support any suggestion that this information should all be disclosed in the financial statements. Such a move would require revisions to processes that are currently operating successfully in many entities and would introduce the requirement to audit all such information. It would be helpful if the report dealt with this “geography” issue by indicating that the suggested information could be provided in different places.

Perpetuation of proposals into the future

A further concern that we have around the generality of the proposals is the anticipated timescales over which this information should be utilised and provided. The proposals have been developed in a period of extreme market conditions which would not be expected to prevail in future. If the proposals for disclosures are taken as a prescriptive list of detailed requirements, however, there is a danger that information will be expected to continue to be provided by companies well after those extreme conditions have disappeared. We are concerned with the cost/benefit aspects of this approach.

Provided the report is accepted as principles-based information and educational guidance in line with our suggestions above then this question of perpetuating unnecessary disclosures should not arise. However, if no such clarification is provided there will be a need to address this matter separately.

If you have any queries or questions that you would like to raise in relation to the matters covered in this letter, please feel free to contact me.

Yours sincerely

Denis Duverne

Denis Duverne
Chairman of CFO Forum