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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
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Subject: Reclassification of financial instruments

Dear Sir David

We would like to take the opportunity to provide some input to the Board's consideration of reclassification of financial instruments, which we understand will be discussed on Monday 13 October. We consider this issue to be of fundamental importance, requiring urgent attention and, hence, support the decision to discuss it in next week's meeting.

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. It represents a consensus view on issues relevant to the European insurance industry.

In our view, continuing to mark-to-market those financial instruments for which there is no longer substantial market liquidity contributes to procyclical effects. This is because, in the absence of substantial market liquidity, mark-to-market values can be significantly lower than the genuine economic value of the positions. Furthermore, accounting classification and business intent are no longer aligned. Therefore, we propose some measures which are designed to reflect the business intent and the value of the instruments held. In the current situation, our proposals are an attempt to dampen the negative spiral of the crisis.

The proposals should also eliminate existing differences between US GAAP and IFRS that create potential competitive disadvantages for European companies. In order for these proposals to represent a global solution to a global problem the IASB and FASB should include them in their accounting standards. It is imperative for these proposals to be adopted as immediate solutions.

We propose the following:

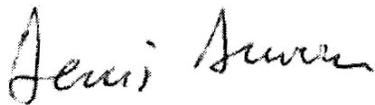
1. Allow mark-to-model values to replace mark-to-market values for instruments that are clearly illiquid and for which market information would lead to estimates that do not represent their economic values. In a mark-to-model approach, adjustments should be made to market data in order to eliminate the specific elements included in that data (i.e. liquidity and credit) which are not relevant for assets held by insurers. Furthermore, particular attention should be made to the possible impact of the US rescue plan and similar defeasance programs on the valuation of financial assets.

2. Allow reclassification, at fair value on the date of transfer, from the “fair value through profit and loss” category to another category (i.e. AFS, HTM or Loans & Receivables) for both trading assets and assets designed at fair value by option if there is an unequivocal change in business intent to hold the instruments as a result of the lack of market liquidity. Moreover, reclassification of trading assets or assets designed at fair value by option from the FVTPL category to another category (i.e. AFS, HTM or Loans & Receivables) should be allowed when there are changes in business model in response to ‘hexogen’ factors, for instance, when the market conditions no longer permit entities to manage the assets on a fair value basis. Similarly, reclassification of debt instruments classified as AFS to the Loans & Receivables category should be allowed.
3. Allow debt securities to be measured at amortised cost by amending the definition of Loans & Receivables to include all debt securities, listed or not. Insurers were already penalised by the accounting mismatch existing under current IFRS 4 relating to insurance liabilities generally measured at amortised cost; under the current market conditions this mismatch gives a completely distorted accounting view.

The overall aim of restoring market confidence can only be achieved if there is complete transparency in relation to the use of these measures for investors. Therefore, full disclosure of the reasons and impact is required. Companies should have the option whether or not they want to reclassify their assets. As mentioned above, there should be a close alignment between IFRS and the US rules and hence it is also necessary to improve US GAAP in the same way.

If you would like to discuss any of these points in more detail please contact me.

Yours sincerely



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