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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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25 September 2009

Dear Sir David,

Response to Exposure Draft: Fair Value Measurement

We are taking this opportunity to comment on your exposure draft - Fair Value Measurement (the "ED"). 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. Accordingly, it represents the consensus views of a significant element of the European insurance industry.

We support the objective of developing guidance on the measurement of fair value that would ensure a common understanding and consistent application of this measurement attribute. We further recognise that this is an important part of international convergence. The proposed standard will establish a basis for fair value measurement in all cases where "fair value" is applicable within IFRS. In this regard it is not possible to fully conclude on the proposals in the ED without understanding the full scope of its application, ie the extent to which fair value will be utilised within future or revised IFRS standards. Accordingly, it will be necessary to re-assess the fair value measurement standard, and potentially make consequential amendments, when such standards are developed or revised.

We also have a number of specific concerns with the proposals as set out below.

The fair value of liabilities should not be restricted to transfer value
Whilst the ED introduces the concept of "highest and best use" for determination of an asset value, being either an "in use" or an "in exchange", i.e. transfer value, there is no similar concept included for liabilities for which the fair value is based on a transfer value. We would contend that there are many similarities between the valuation of assets and liabilities in circumstances where there are no observable market prices and hence a more consistent approach should be adopted.

On the basis that the economically rational fair value of an asset is based on the higher of its value in use and its transfer value, it follows that the economically rational fair value of a liability should be the least cost of exit, i.e. the lower of cost to fulfill the obligation or the amount a knowledgeable market participant would accept to take the liability over (transfer value).

The ED should consider the possibility that it may be economically rational to settle the liability over time rather than move immediately to the transfer value. This would also align the principles more closely with those in IAS 37.

We have expressed concerns in our response to your exposure draft on Financial Instruments: Classification and Measurement regarding the potential requirement to apply fair value to many financial liabilities in an insurer's balance sheet, including investment contracts, given the restrictive criteria for use of amortised cost. In light of the possible implications of that project we consider it to be particularly important that the proposals for fair value measurement of liabilities in this ED are built around an economic approach rather than purely a transfer concept.

We note that, for the absence of doubt, whilst applying an exit value measurement attribute may be appropriate to certain liabilities, we do not purport that insurance contract liabilities should be valued on a fair value basis as defined in the ED, since they cannot be calibrated to market values. As a consequence we do not believe that this ED is directly relevant to insurance contract liabilities although some of the issues will have an indirect impact on their measurement and hence should be considered in the insurance contracts “Phase II” project.

Guidance on determination of fair values in inactive markets can be interpreted as circular

We are supportive of the provision of guidance on determination of inactive markets as included in B5 in order to identify when market prices may not represent appropriate fair values. We would prefer, however, inclusion of a clear provision that transactions are deemed not to be orderly if they take place in an inactive market unless it can be proved otherwise.

In addition, we are concerned that paragraphs B7 and B10 in the section that deals with the valuation technique to be applied in the case of transactions that are not orderly could be interpreted in a manner that brings the valuation basis back to current market value thereby rendering the proposals in this area circular in nature.

B7 requires a risk premium to be included in the valuation that is “reflective of an orderly transaction between market participants at the measurement date under current market conditions.” Given that the current market has been deemed to be inactive, and transactions have been identified as not orderly, then it appears inappropriate that reference should be made to current circumstances in determining fair value. Furthermore, paragraph B10 specifically indicates that it is not possible to take into account an intention to hold an asset until a market becomes active and transactions orderly.

This point is further illustrated in example 11 in the draft illustrative examples. Paragraph IE33 of that example states that “the market rate of return is estimated using the risk-free rate of interest and a margin that reflects the risks that market participants would consider when pricing the asset in an orderly transaction at the measurement date." We believe that the guidance and illustrative example in this area require revision to ensure they are not suggesting automatic default to current market prices in such circumstances which we do not believe is the Board's intention.

No single approach can be applied to own credit risk in liability measurement
We have commented on this issue in our letter to the Board in response to Discussion Paper 2009/2: Credit Risk in Liability Measurement, dated 1 September 2009. In that letter we state the following that is relevant to this ED.

Conceptually, we do not disagree with the inclusion of credit risk where liabilities are measured at fair value but we do not believe that a single approach can be applied to all such liabilities. For example, from a practical point of view it may be appropriate to distinguish liabilities measured at fair value between those categorised at different levels of the fair value hierarchy. Accordingly, one would expect to reflect credit risk in the measurement of those at level 1 whereas this would not be the case for those at level 3 in the hierarchy. It would be practically difficult to *exclude* credit risk from a fair value determined higher up the hierarchy whereas a "mark to model" level 3 valuation would potentially experience the same difficulties *including* the credit risk element.

We question the usefulness and frequency of the disclosure requirements
We are concerned that the level of the disclosure requirements included in the ED will contribute to the constantly increasing volume of financial statements and hence further restrict the ability of users to identify decision-useful information within such statements. We would support a wider assessment of disclosure requirements by the Board rather than the piecemeal addition of new requirements in a variety of standards.

We do not believe that the disclosures set out in paragraph 58 relating to assets and liabilities which are not measured at fair value should be required. We believe this is consistent with the decision the Board made with regard to IFRS 7 disclosures.

Furthermore, we do not agree with the proposal to require additional disclosure in interim financial statements, in particular the full range of information included in paragraph 57. The cost of preparation far out-weighs any marginal benefits a user would gain.

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,

Philip G Scott
Chairman – European Insurance CFO Forum