

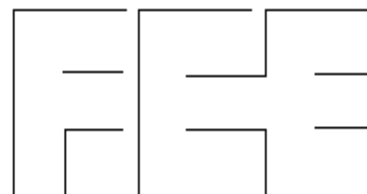
Date
24 March 2005

Le Président

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Dear Sirs,

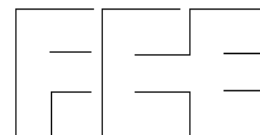
Re: CEIOPS – CP-03/04 Implications of IAS/IFRS Introduction for the Prudential Supervision of Insurance Undertakings

FEE (Federation of European Accountants, Fédération des Experts Comptables Européens) is pleased to submit its comments on the consultation paper no. 3 on the implications of IAS/IFRS introduction for the prudential supervision of insurance undertakings. FEE is the representative organisation for the accountancy profession in Europe with membership of 44 professional institutes of accountants from 32 countries in total representing more than 500.000 accountants in Europe.

The analysis included in your survey on the application of IAS in the insurance sector (Annex 1) shows that there will be major differences between Member states regarding the voluntary or mandatory use of IFRS in the annual accounts of insurance companies. If the use of IFRS is permitted, one can expect that insurance companies will make their own choices, at least in the short term. Such choices will depend on their individual assessments of advantages and disadvantages of IFRS.

The consultation paper takes it as a starting point to put in place supervisory actions to reverse changes resulting from the introduction of IFRS, which have a relevant impact on prudential supervision. Those so called “prudential filters” aim to neutralize the non-intended effect of the application of IFRS on such systems. We suggest that this objective is thoroughly discussed and justified. Under the existing solvency system the options in the Insurance Accounts Directive already allow for diverging approaches: historical cost as well as market value. The introduction of IFRS may contribute to a reduction of diversity already existing. The introduction of “prudential filters” would restrict these developments. Furthermore it might be worth to investigate, how the “prudential filters” apply for groups that do currently apply different accounting rules for the different entities within the group.

We have noticed that the paper does not include any statement with respect to audit requirements on the adjustments made as prudential filters. Since in some jurisdictions present solvency calculations are subject to audit and we understand the intention is to maintain the present calculations as much as possible, we assume audit work will be required, but we would welcome clarification on this issue in any next papers to be submitted to the European Commission.

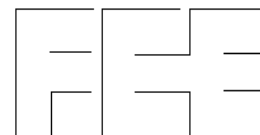


Our detailed comments on the document are annexed hereto. We would be pleased to discuss any aspect of this letter with you. We thank CEIOPS for the opportunity to comment on the consultation paper.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin'. The signature is fluid and cursive, with a large initial 'D' and 'D'.

David Devlin
President



APPENDIX

1. Definition

We do not believe that for Solvency I purpose it is necessary to reverse the definition of insurance contracts. The fact that solvency rules are applicable to insurance undertakings is not contradictory to the fact that some contracts may be accounted for following IFRS 4 and others following IAS 39 and possibly IAS 18. We believe that the issue of incompatibility with the transaction-based accounting definition and the entity-based approach for supervisory purposes should be further investigated.

An impact of the categorisation may, however, exist in those cases where the categorisation results in different presentation rather than in measurement and recognition differences (e.g. solvency factors making reference to premium income or claims expenses).

The need to determine whether a transfer of insurance risk is “significant” is already necessary under existing accounting rules, e.g. for the classification of financial reinsurance contracts.

The definition of IFRS 4 clearly covers credit insurance; the question is whether it will be scoped out in future revisions in order to bring it in line with the accounting for financial guarantee contracts.

We do not believe that it is an alternative to keep on the “existing definition” (Annex 3, page 3) for insurance contracts for supervisory purposes, since such a definition does not currently exist to our knowledge.

2. Valuation of financial assets

Already the existing Insurance Accounts Directive allows the use of current value, fair value and historical cost. It therefore leads to an extensive variety. The current version of IAS 39 does not give the preparers so many options, but rather leads to different consequences depending on the characteristics and features of the financial instruments (including management intent, the use of which is subject to the statutory audit).

The valuation of loans and receivables that are not quoted in an active market at amortized costs may lead to a mismatch if these investments are held to cover technical provisions which are measured at market value. We suggest therefore that the fair value option should be available for such instruments.

3. Valuation of insurance liabilities

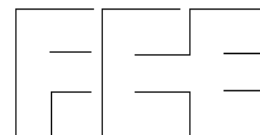
Against what is stated in footnote 16 to para. 60, IFRS 4 does not allow a change of accounting policy that leads to a reflection of future investment margins (IFRS 4.27).

It should be noted that if a company decides to change the accounting policy for claims provisions introducing the discounting, in order to fulfil with the requirements of IFRS 4.22, risk adjustments are required according to IAS 37.42.

4. Equalisation provision

We do not believe that the Insurance Accounts Directive and/or the Prudential Directive need to be changed. Under the current system insurance undertakings may be already required or not required to recognize an equalisation provision and/or catastrophe provision. Hence the prohibition in IFRS 4 against recognising such provisions does not increase the existing variety. The decision of whether prudential filters are necessary to maintain a certain level of solvency should be left to the individual Member States.

The paper proposes to change the prudential directive and the IAD with respect to equalisation provisions. We do not believe that in the past the different wordings in the prudential directive and the IAD have led to major problems. The proposed change of the prudential directive and the IAD would



lead to the same question vice versa. For those lines of business where the prudential directive requires the equalisation reserve (namely credit insurance), it shall be disregarded for the purpose of calculating the solvency margin.

Therefore, we do propose not to change the prudential directive and the IAD, but to address the issue in the context of Solvency II.

5. Valuation of financial liabilities

We do share the view that the recognition of subordinated loans or similar instruments as solvency capital should be independent from the categorisation as equity or liability according to IAS 32. If such instruments are recognized as solvency capital to the same degree as equity, their measurement does not matter. But in cases where they are only recognized up to determined proportion measurement is playing an important role.

In relation with para. 72 a), we would note that for those contracts that are accounted for under IAS 39, the liability adequacy test of IFRS 4 or something similar does not apply.

With respect to para. 73, we would like to note that for financial liabilities that are measured at the fair value IAS 39 requires that the fair value of a financial liability with a demand feature is not less than the amount payable on demand (IAS 39.49), which leads to a certain safety level.

6. Valuation of subsidiaries

For insurance company individual accounts it should be noted that investment in subsidiaries associated undertakings fall under the scope of IAS 39 which may lead in most circumstances to a measurement with their fair value.