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International Accounting Standards Board
30 Cannon Street
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Zürich, 8 October 2003

Comments on the IFRS ED 5

Dear Mr. Clark

The Swiss Insurance Association (SIA) would like to take the opportunity to respond to the questionnaire on ED 5. The SIA represents Swiss insurance companies including subsidiaries and branches of foreign companies in Switzerland, which in total account for approx. 96 % or CHF 55 billion of annual premiums written in the Swiss market. The SIA comments are prepared by the Commission for accounting and reporting. This group is made up of leading finance and accounting executives from various companies including all large and listed companies.

The IFRS framework is of high relevance in Switzerland as the Swiss Stock Exchange requires from all its listed companies the application of either full US GAAP or IAS standards from 2005 onwards. In this respect content and discussions about ED 5 are of utmost relevance for the Swiss insurance industry.

We would like to make some general comments:

1. The SIA fully supports the general concept to introduce international accounting standards that increase and ensure consistency, comparability and transparency of financial reporting.
2. Principles of fair value are widely accepted. However valuation of insurance liabilities, which are of unique nature, is subject to a worldwide controversial discussion among experts on appropriate accounting principles. We think that more considerations are necessary before an ultimate decision on the appropriate accounting standards for insurance contracts is taken (as to be addressed in Phase 2).
3. We appreciate the commitment of the IASB to give the development and implementation of Phase 2 a high priority, as the transition period and the related uncertainty produce disadvantages for both the industry and the financial community.

4. We don't believe that ED 5 proposals in the existing version increase transparency of insurance accounting; in fact, we believe that the opposite is the case. Application of IAS 39 for the assets without having a comparable valuation of the liabilities produces a significant mismatch between asset and liabilities, which ultimately misleads readers and recipients of the financial statements. This is of specific relevance. Technical provisions is one element among others in the balance sheet of an insurance company, but it is the dominant and most material item of the liabilities. We therefore strongly recommend an introduction of a separate investment category of assets held to back insurance liabilities that can be valued at amortized cost in phase 1.
5. The definition and introduction of valuation principles for insurance liabilities is the subject of phase 2. Nevertheless phase 1 of ED 5 requires fair value disclosure of liabilities. This is in our view a contradiction in itself. It leads to both inconsistency and a lack of transparency. Individual models and assumptions developed and applied by the companies without any conceptual guidance will produce a variety of results neither comparable nor meaningful. In addition, the development of complex models requires tremendous efforts and costs which cannot be justified for a short transition period.
6. In general we think that disclosure requirements are too detailed and burdensome, and should be streamlined. We refer to the individual points in our responses and comments to the various questions.

The whole industry supports the improvement of the current standards, however the rapid implementation of the current IASB proposals could lead to huge risks for the industry. On the top of that we want to emphasize that we fully support the comments on the Exposure Draft 5 of the CEA (Comité Européen des Assurances). Therefore the SIA would be grateful if its comments were considered during your deliberations.

Yours sincerely

Lucius Dürr
SVV, Director

Encl.

Copy to: Sir David Tweedie