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Banking supervision
And Accounting issues Unit
The Director

Paris, November 29th 2010

DRAFT – 15.11.10
Response FBF ED Insurance contracts.

Dear Sir,

The French Banking Federation is pleased to comment on the Exposure Draft "Insurance Contracts". However, we would limit our comments only on the definition and the scope of insurance contracts proposed by the exposure draft. We would mainly focus on the consequences that the inclusion of financial guarantees under the scope of the ED may have for the banking industry.

Under the ED, all financial guarantees that meet the definition of an insurance contract would be forced to be measured at current value whereas under current IAS 39 provisions, financial guarantees may be treated as financial instruments since they are not explicitly treated as insurance contracts and therefore are measured at the higher of cost and fair value.

First of all, including financial guarantees in the scope of the ED would add complexity in measuring financial guarantees notably when measuring the risk adjustment and the residual margin.

Moreover, by including a typical banking in the scope of insurance accounting, the ED makes the assumption that insurance industry and banking industry apply same business model to financial guarantees whereas the business model of each industry is substantially different.
Banks manage the credit risk of balance sheet items (e.g. loans) and off balance sheet items (e.g. loans commitments and financial guarantees) in a consistent manner based on an expected loss approach.
We see no reason to differentiate the treatment of credit risk arising from loans from credit risk arising from loan commitments and financial guarantees and to disconnect accounting principles from credit risk management practices. The ED would not reflect the way bank manage their credit risk. Therefore, we do not see any value added to information provided to users of bank financial statements when applying the ED proposals.

Sir David TWEEDIE
Chairman
International Accounting Standards Board
30, Cannon Street
London EC4M 6XH
United Kingdom

Finally we question the relevance of such significant changes to current disposals as we have not been aware that their practice was not satisfactory.

Therefore, we are strongly opposed to the ED proposals related to financial guarantees.
We support the European Banking Federation (EBF) position to maintain the accounting principles currently applied and defined under IAS 39. We also favour the alternative proposals of the EBF.

The EBF would consider an overall approach for all lending type business undertaken by banks: loans, financial guarantees and loan commitments, in order to be consistent with bank credit risk management.
Therefore, all these types of lending businesses should be scoped under IFRS 9 or IAS 39 complemented with an expected loss impairment model. To our opinion, this approach is consistent with the IASB staff view expressed in paper 1C (paragraphs 61 to 66 – August 2010 Board Meeting). In this paper, the staff believes that moving loans commitments as well as financial assets to an expected loss approach "would result in consistency in accounting for financial assets that are being managed in the same way".

For these reasons, we advocate to consider the overall approach described above for credit-related instruments should they arise from on-balance sheet or off-balance sheet transactions. Therefore, risk management practices would be aligned with the accounting principles.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Jean-Paul CAUDAL