

Hans Hoogervorst Esq
Chairman
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

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Dear Hans,

Investment Entities ED

This letter has been drafted by the European Insurance CFO Forum, a body representing the views of 21 of Europe's largest insurance companies and the Comité Européen des Assurances (CEA), representing 95% of the premium income of the European insurance market. Accordingly it represents the consensus view of a significant element of the European insurance industry.

Thank you for the opportunity to comment on your exposure draft on investment entities ("the ED"). This subject is of significance to us as insurers regularly hold investments in investment funds due to the nature of our operations where we invest on behalf of policyholders and often also have our own fund management operations.

The investment entities concept is a valid one but does not reflect insurers' investing activities

We agree that there are circumstances where it would provide more decision useful information to users of financial statements for an entity not to be required to consolidate all entities that it controls. Accordingly, we support the objective of the ED of making changes to IFRS 10 to reflect this point. However, we believe that the circumstances for non-consolidation are wider than just for investment entities, as currently defined.

Insurers often have significant holdings in investment funds where the insurer invests in the fund on behalf of its policyholders. However, as those investments are held by an insurance company, whilst similar in nature to those investment arrangements captured in the ED for an investment entity, they would not meet the investment entities criteria in the ED as drafted. Additional criteria should be developed to this effect to capture the circumstances in which it would be appropriate for an insurer to be permitted to measure an investment at FVTPL, including reference to management of the investment on a fair value basis. Accordingly, this should not be a requirement for those entities who manage their investments on an amortised cost or available for sale (AFS) basis.

As insurers we believe that it is essential that the ongoing developments in the IFRS 4 Phase II project, and the related targeted improvements to IFRS 9, are taken into consideration when finalising the investment entities aspects of the consolidation project.

It is essential that an option is included to permit investment entity accounting to be rolled up to parent entities

It is stated in the basis for conclusions in the ED that part of the Board's conclusion for not permitting the consolidation exemption to roll-up to a non-investment entity parent was that the Board believed in most cases investment entities do not have non-investment entity parents. This is not true in the case of investment entities held by insurers, as an insurance company would not meet the definition of an investment entity; however, insurers are the parent of investment funds some of which we believe would meet the definition of an investment entity. We believe that a parent of an investment entity should be able to apply the consolidation exemption that its investment entity subsidiary has applied.

The requirement in relation to fair value measurement of investment property should be clarified

We believe that the wording in the ED in relation to the requirement for investment entities to measure investment properties at fair value should be clarified to avoid creating unintended consequences for other entities. It should be made clear in the standard that an entity should first determine its accounting policy for investment property under IAS 40 and then, for those entities using fair value, secondly consider whether it is an investment entity.

We are concerned about the detailed nature of the disclosure requirements

We are concerned about the level of detailed narrative contained in the disclosure requirements in paragraph B19 and we believe clarification is needed over how the requirements in the ED interact with those in IFRS 12. We would prefer if the disclosure requirements were aligned with and incorporated into IFRS 12 so that there was clarity over the complete disclosures needed in relation to investments in other entities. We believe that clarification is required around the disclosures required at a consolidated level when the parent is a non-investment entity. We also question the appropriateness to require in the notes to the financial statements the disclosures set out in paragraph B19 (b) and (c) as in our view, they are more akin to performance indicators and thus would be more appropriate in a management commentary. The fact that paragraph B19 mentions that these are only examples of disclosures (that are very detailed indeed) is not sufficient to alleviate the concern.

It is necessary to reconsider the effective dates of IFRS 10-12 given the interaction with the ED

With regards to transition, we believe that it may be appropriate for the IASB to delay the mandatory implementation date of IFRS 10, IFRS 11, IFRS 12 and IAS 27 and IAS 28 (as revised) until the Investment Entities Project has been completed. As the Investment Entities ED proposes an exemption from consolidation it is inter-linked with the implementation of IFRS 10. Insurers have many entities within their group structures which need to be re-assessed under the IFRS 10 principles and application guidance. Some of those entities may meet the definition of investment entities and therefore, under the proposals in the ED, that entity would be required to account for the entities it controls at FVTPL rather than through consolidation. Therefore, it is likely that companies may undertake work in order to prepare to consolidate an entity from 2013 (when IFRS 10 comes into effect) which would then subsequently be unnecessary as a result of the implementation of the Investment Entities ED. In many instances carrying out this exercise would be of significant cost to a company and the work could ultimately become redundant.

There are unintended consequences of changing the IAS 28 exemption

We do not believe IAS 28 should be amended to remove the measurement exemption that allows venture capital organisations, mutual funds, unit trusts and similar entities (including investment-linked insurance funds) to account for investments it holds directly and indirectly in associates and joint ventures at FVTPL rather than applying the equity method.

Many insurers use this option extensively within their consolidated financial statements and we believe that there would be significant consequences for insurers from amending the definition in IAS 28 as proposed. Many entities within an insurance group that currently apply the option in IAS 28 would not meet the definition of an investment entity. As an alternative to the proposal in the Investment Entities ED we prefer the alternative proposed that the option for “venture capital organisations, mutual funds, unit trusts and similar entities” is retained in IAS 28.

Please feel free to contact us if you wish to discuss the matters covered in this letter in more detail.

Yours sincerely



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