CEA
Insurers of Europe

To: Mr Stig Enevoldsen
Chairman
EFRAG
35 Square de Meeûs
B-1000 Brussels

Ref: IASB Discussion paper *Preliminary Views on Financial Statement Presentation*

Brussels, 17 April 2009

Dear Stig,

As the CEA, the European Federation of insurers and reinsurers, which represents all types of insurance and reinsurance undertakings that account for approximately 94% of total European premium income, we have been very much involved on the Financial Statement Presentation project from the beginning. In order to develop a European insurers' response to the International Accountings Standards Board and the Financial Accounting Standards Board (the 'Boards'), we have worked together with the CFO Forum in order to submit a joint response. In addition, five European insurance companies have participated to the Boards' field testing and we have used this experience in order to validate some of the key points we express in our response to the Boards.

As EFRAG is a key stakeholder in this debate, we would like to share with you our key comments in reaction to your draft response letter to the IASB regarding the *Preliminary Views on Financial Statement Presentation* discussion paper. In addition, we summarise the main messages we plan to include in our response to the IASB, which is currently in the approval process, in appendix to this letter.

Key comments on the EFRAG draft letter

Firstly, we agree with EFRAG's view that a strict application of the cohesiveness and disaggregation principles is likely to result in very lengthy financial statements. This is likely to obscure the financial statements and seems inconsistent with the Boards' objective of increasing the usefulness of financial statements for users.

Furthermore, we share EFRAG's view that a direct cash flow statement is unlikely to be more useful to users, in particular in the case of insurance business. Indeed, any one year cash flow for a business for which the operating cycle is significantly longer than one year seems to us of very limited value. Therefore, presenting a direct cash flow statement is unlikely to add much value for users. At the same time, preparing a direct cash flow statement will trigger significant costs for European insurers as most of them do not have the necessary IT systems (nor have the intermediaries such as agent, brokers, co-insurers) and would thus need to develop them.

Finally, we share EFRAG's concerns on the usefulness of the requirement to prepare a new reconciliation schedule. We do not support a requirement to provide a reconciliation schedule in the format proposed within the financial statements but believe that the Boards should look at building on existing roll-forward analyses required by other standards as a means of providing linkages between primary statements.

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On those three points, and for those reasons expressed above, we support EFRAG's comments as currently included in the draft response.

On the contrary, we have different views from those expressed in the EFRAG draft letter in two key areas. Firstly, we do not share EFRAG's interpretation of the management approach. We do understand that the Boards' proposal is that the management approach gives management substantial discretion on how to classify items into categories, as defined by the EFRAG in paragraph 29(a). We believe that this approach will significantly increase the usefulness of the financial statements for users. In addition, each entity will explain in the accounting policies the rationale behind its classification of items into the different sections. This disclosure should be a suitable safeguard to avoid arbitrary classification by management. Unlike EFRAG, we do not agree that a change in the classification of an item following a change in the way the item is seen and used by management, corresponds to a change in accounting policies (EFRAG paragraph 35(b))

Secondly, we believe that the priority assigned to this project should be reduced. Indeed, the Boards are currently running in parallel several key projects, such as the fair value measurement project, the insurance contracts project and the Conceptual Framework. We believe that those should be completed first.

We hope you will find those comments useful to the finalisation of your letter. We look forward to discussing this further with you should you have any questions,

Yours sincerely,

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Appendix 1 - Key comments that will be raised in our response to the Boards

As mentioned in the introduction above, we are currently finalising the approval our joint response to the Boards. Our overall view is that it is not clear that there are any benefits to users from the discussion paper's proposals. Moreover, whatever benefits there may be, they are clearly outweighed by the costs to preparers. On the positive side, we welcome the recognition of the principle that financial reporting should, whenever appropriate, reflect management's view, although this principle was not consistently and faithfully adhered to throughout the discussion paper.

More specifically we have pointed out to the Boards the following comments or areas of concern:

Interaction with other IASB and FASB projects

Our understanding is that this project aims to establish reporting rules common to all companies in all industries. We have prepared our response in this context and based on existing IFRS literature. However, some specific measurement and presentation requirements may emerge from other IASB and FASB projects currently under review which could contradict or complicate the application of these proposals. In this regard, the Insurance Contracts project measurement principles will have significant implications for presentation and disclosure requirements, which may lead us to reconsider some of the views on financial statement presentation expressed in this letter. We are not in this comment letter prejudging what our position will be in relation to these other projects.

Further, to avoid financial statements becoming still longer and, as a result, perhaps less informative, we suggest that the Boards look at the whole package of disclosures that their various standards require with a view to ensuring that they result in financial statements that give a concise and integrated view.

Questionable benefits of the Discussion Paper proposals to users

We do not believe that there are any significant benefits in implementing the proposals for users of financial statements compared to current reporting requirements, as demonstrated by our field testing. We have identified a number of examples which are highlighted below and explained further in our answers to the questions.

Risk to end up having very long financial statements in which the important information is diluted

We are concerned about the apparent desire of the two Boards to give a lot of information on the face of the primary statements as opposed to in the notes. We fear that this could lead to lengthy primary statements which could impair the readability of the whole financial statements. This would, in our view, contradict one of the key objectives of this project, which is to increase the usefulness of financial statements for users.

In addition, the cohesiveness and disaggregation principles should be applied with judgment and pragmatism, in the light of what management believes is appropriate. Otherwise, there is a risk that companies will present very long financial statements which could dilute the important information for users given the significant volume of data.

Importance of applying a management approach to financial statement presentation

We believe that a management approach will provide the most useful information to users of financial statements. However, we note that in several areas, the Boards have proposed rules to deal with particular issues and such an approach can be seen as contradictory to a management approach. A particular example is the proposal to show cash equivalents separately from cash and hence prepare a cash flow statement that excludes cash equivalents. Insurers manage cash equivalents together with cash and any split between the two for presentation purposes would not only be contrary to the application of a management approach but would also result in a meaningless cash flow statement as it will exclude a significant part of our liquid day to day resources.

Another proposed rule which appears contrary to a management approach is limiting the financing category to financial instruments rather than considering all assets and liabilities as potentially financing in nature. Furthermore, we note that the treasury function is proposed as being classified in the financing section, regardless of how management views this activity inside the group. Finally, we believe that the management approach should also be retained when looking at basket transactions.

In conclusion, we believe that the Boards should apply the management approach consistently across the discussion paper.

Cash flow statement – Significant reservation on the usefulness and methodology

The value of any cash flow statement for insurance companies is deemed low as many products have a life cycle which is significantly greater than one year. Therefore, any cash flow statement (direct or indirect) covering one year will not provide users of financial statements with useful information. Many users of insurers' financial statements require additional information distinguishing between policyholder and shareholder cash flows in order to predict future cash flows and hence information is often provided outside the financial statements in non-GAAP disclosures.

In relation to the requirement in the discussion paper to produce a direct cash flow statement, many insurance companies currently do not have the IT systems that enable them to prepare such a statement. In addition, insurance and reinsurance business involves significant dealings with intermediaries (for example, agent, brokers, co-insurers and reinsurers) who would also have to change their systems in order to provide insurance companies with the type of data required to prepare a direct cash flow statement. This would undoubtedly generate high costs for insurance companies and intermediaries, while the added value seems very limited.

Limited value of the new reconciliation schedule

As indicated above, we do not believe that a cash flow statement provides useful information to predict future cash flows for insurance companies. Therefore, we do not believe that disaggregating cash flow positions into columns will increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows. Furthermore, we are concerned that the proposed reconciliation schedule requires companies to disclose a vast amount of data over several pages, much of which is not relevant and is likely to confuse the reader The level of reconciling adjustments and explanation required will be extremely significant for businesses with long operating cycles.

We do not support a requirement to provide a reconciliation schedule in the format proposed within the financial statements but believe that the Boards should look at building on existing roll-forward analyses required by other standards as a means of providing linkages between primary statements.

Merging income statement and OCI items into a single statement of comprehensive income

We do not believe that there should be a single statement of comprehensive income as such a statement would lead to undue focus being placed on the bottom line. We understand that the Boards' proposal is to take the information currently contained in the two statements, subject to other changes introduced by the proposals, and bring it together onto one page rather than present it separately on two. We strongly question what the benefit for users would be of such an approach.

Significant costs of proposals

We believe, and this has been supported by the experience of our five field testers, that the Boards' proposals will generate high implementation costs to be borne by preparers, both one-off costs (for example, to adapt IT systems) and recurring costs (for example, time spent generating the reconciliation schedule).

Therefore, we encourage the Boards to carefully consider the cost – benefit ratio of the final standard in relation to each aspect of the future reporting model. Furthermore, the Boards will need to take into account the fact that the discussion paper will apply to all companies reporting under IFRS and not just for the consolidated accounts. We encourage the Boards to keep this in mind when elaborating their final proposal.

Disagreement on the priority assigned to the financial statement project

In the light of the significant concerns expressed above, which we have validated through our field testing experience, we encourage the Boards to review the priority assigned to this project. There are currently many key projects being run in parallel by the Boards , such as the fair value measurement project, the insurance contracts project and the Conceptual Framework, all of which we believe should be completed first. There are also many higher priority challenges to financial reporting being presented currently by the financial crisis. Accordingly, we do not see financial statement presentation as a "high priority" project.