



Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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18 August 2008

Dear Sir David,

We welcome the opportunity to comment on your Discussion Paper – Financial Instruments with Characteristics of Equity (the “Discussion Paper”). This letter has been drafted by the European Insurance CFO Forum, which is a body representing the views of 20 of Europe’s largest insurance companies and the Comité Européen des Assurances (CEA), representing 94% of the European Insurance market. The letter represents a consensus view on issues specifically impacting the European insurance industry.

We recognise that, in addition to this Discussion Paper, the IASB has a number of other ongoing projects which are significant to the measurement, classification and presentation of financial instruments. We support the IASB’s objectives in undertaking projects in these areas and in moving towards global convergence of accounting standards. However, we believe that it is necessary to wait until the conclusion, or at least firm indications of direction, of some of these core projects before undertaking revisions to the classification of financial instruments between liability and equity. It is important that proposals in this Discussion Paper can be assessed as part of a comprehensive picture of future accounting requirements and that the needs of users of financial statements, such as regulators and rating agencies, are fully taken into account.

In particular, classification of financial instruments cannot be considered independently of measurement. The implications of introducing elements of the accounting model on a piecemeal basis can be illustrated by the fact that the basic ownership model proposed in the Discussion Paper would result in significantly more instruments being classified as liabilities than under current IFRS. Increased classification of financial instruments as liabilities rather than equity must be considered in the light of the proposed longer term objective of increased use of fair value accounting as set out in the recently issued discussion paper, Reducing Complexity in Reporting Financial Instruments. For example, it is currently unclear how a fair value basis of measurement should be applied to some of the financial instruments that might find themselves classified as liabilities under the new proposals. Accordingly, before an informed analysis of this proposed model over the others can be carried out, it is essential that greater clarity is provided regarding the use of fair value in the short and longer terms as well as over aspects of fair value measurement, such as inclusion of own credit risk.

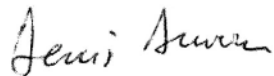
We also believe that consideration should be given to the need for consistency between the residual amount emerging as a liability under this proposed standard and the definition of a liability under the Conceptual Framework.

An area of particular significance for insurance companies is contracts with discretionary participation features ("participating contracts"). Such features may be present in insurance contracts, as defined under IFRS 4, or in financial instruments that do not transfer significant insurance risk ("investment contracts"). IAS 32 currently excludes these contracts from its scope. IFRS 4 addresses the classification of participating contracts, permitting initial recognition of such contracts either wholly as a liability or as separate liability and equity components.

Consistent with the views presented in our comment letter on the Preliminary Views on Insurance Contracts discussion paper, we believe participating contracts should be addressed within the scope of the final Insurance Contracts standard and hence should continue to be scoped out of any revisions to IAS 32, allowing the new Insurance Contracts standard to be the definitive guidance on both the initial classification and the measurement of these contracts.

If you have any queries or questions that you would like to raise in relation to the matters covered in this letter, please feel free to contact us.

Yours sincerely



Denis Duverne
Chairman of CFO Forum



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