



LONDON INVESTMENT BANKING ASSOCIATION  
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15 November 2007

Mr Peter Clark  
Senior Project Manager  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Submitted via the "Open to Comment" page at [www.iasb.org](http://www.iasb.org)

Dear Mr Clark

### **IASB Discussion Paper: Preliminary Views on Insurance Contracts**

I am writing on behalf of LIBA (the London Investment Banking Association) to comment on the IASB Discussion Paper: Preliminary Views on Insurance Contracts ("the IC DP"), which was published on 3 May 2007. LIBA is, as you may know, the principal UK trade association for investment banks and securities houses; a list of our members is attached.

As insurance is not a major part of our members' business activities, our comments on the IC DP are primarily confined to the proposals regarding the measurement of insurance contracts. Our principal concern here is that the IFRS recognition, derecognition and measurement requirements for insurance contracts should as far as possible be consistent with those for financial instruments, and that the underlying basis for any necessary differences should be clearly articulated in the respective standards.

In that context we highlight below two key areas where we believe the Board's views should be incorporated into their redeliberations of the Discussion Paper on Fair Value Measurement ("the FVM DP"):

#### **\* Gain or Loss At Inception of an Insurance Contract**

Paragraph 86(d) of the IC DP states that a majority of Board members support the view that for insurance contracts "the observed price for (an insurance) transaction with the policyholder, although useful as a reasonableness check on the initial measurement of the insurance liability, should not override an unbiased estimate of the margin another party would require to take over the insurer's contractual rights and obligations."

We consider this view to be inconsistent with Paragraph AG76 of IAS 39 Financial Instruments: Recognition and Measurement, which states that “the best evidence of the fair value of a financial instrument at initial recognition is the transaction price ... unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument ... or based on a valuation technique whose variables include only data from observable markets.” Paragraph 29(a) of the FVM DP also promulgates the same view: that transaction price is the best evidence of fair value in the absence of observable market data.

The FVM DP indicates (paragraph 30) that the IASB has not reached a preliminary view on whether fair value on initial recognition of a financial instrument should be recorded only when corroborated by observable market information. In the IC DP, however, the IASB has taken a view on a very similar point and indicated that, with respect to insurance contracts, a gain or loss could arise on initial measurement provided that the measurement estimate is unbiased. There is no requirement that such an estimate should be corroborated by observable market data.

We therefore urge the IASB to consider and apply the rationale used to form the majority view expressed in paragraph 86(d) of the IC DP to its deliberations of similar situations addressed in regard to financial instruments in the FVM DP. If however the Board should continue to require a different treatment between IAS 39 (or a final standard on Fair Value Measurement) and its guidance on Insurance Contracts, then this difference should be clearly justified and articulated in at least one (and preferably both) of the two standards.

\* **Unit of Account**

The Board’s preliminary set out in view in Paragraph 202(b) of the IC DP is that “risk margins should be determined for a portfolio of insurance contracts that are subject to broadly similar risks and managed together as a single portfolio. Risk margins should not reflect the benefits of diversification between portfolios and negative correlation between portfolios.”

In contrast we note the view held by some members of the IASB, as expressed in Paragraph 31 of the FVM DP, that the objective of measuring IFRS fair value for financial assets and financial liabilities is to establish what the transaction price would have been in specific circumstances for the individual instrument. There was concern expressed by those members that SFAS 157 *Fair Value Measurements* would allow entities to measure the fair values of financial assets and financial liabilities on the basis of a portfolio of separately identifiable risks.

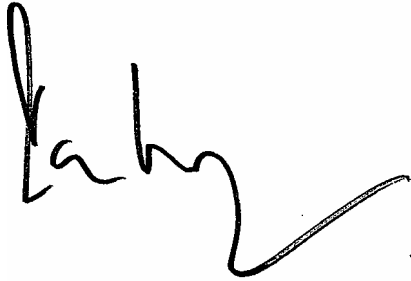
As stated in our 3 May 2007 comment letter on the FVM DP (see the response to Question 12), we consider that the use of portfolio adjustments in the fair value measurement of financial assets and liabilities (which is well-established practice amongst LIBA members) is generally appropriate when measuring financial instruments. Accordingly we support the clear views expressed by the IASB in the IC DP in respect of portfolio valuations. We urge the IASB to consider the basis for its preliminary decisions in this regard and to consider incorporating similar concepts and wording in any subsequent standard deriving from the FVM DP. Should the IASB consider, however,

that such consistency is inappropriate, then it should, as in the previous case, provide a clear analysis of the reasoning behind this view which should be set out in least one (and preferably both) of the two standards.

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I hope that you will find the above comments to be helpful. Please do not hesitate to contact me if you would like any further explanation of any of the points in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping flourish extending to the right.

**Ian Harrison**  
**Director**

# LONDON INVESTMENT BANKING ASSOCIATION

## LIST OF MEMBERS

|                                       |  |
|---------------------------------------|--|
| ABN AMRO Bank                         | ING Bank NV London Branch              |
| Altium Capital Limited                | Instinet Europe Ltd                    |
| Ambrian Partners Limited              | Investec plc                           |
| Arbuthnot Latham & Co., Limited       | Jefferies International Limited        |
| Arbuthnot Securities Limited          | JP Morgan Cazenove Ltd                 |
| Arden Partners plc                    | J.P. Morgan Securities Ltd             |
| Banc of America Securities Limited    | KBC Peel Hunt Ltd                      |
| Barclays Capital                      | Kaupthing Singer & Friedlander         |
| Bayerische Hypo- und Vereinsbank AG   | Landsbanki Securities (UK) Limited     |
| Bear, Stearns International Limited   | Lazard & Co., Limited                  |
| BNP Paribas                           | Lehman Brothers                        |
| Brewin Dolphin Securities             | Libertas Capital Group plc             |
| Calyon                                | Merrill Lynch Europe PLC               |
| Cantor Fitzgerald Europe              | Mizuho International plc               |
| Cenkos Securities Limited             | Morgan Stanley & Co. International plc |
| CIBC World Markets                    | NCB Stockbrokers Limited               |
| Citigroup Inc.                        | Noble & Company Limited                |
| Close Brothers Corporate Finance Ltd  | Nomura Code Securities Limited         |
| Collins Stewart Europe Limited        | Nomura International plc               |
| Credit Suisse Securities (Europe) Ltd | N M Rothschild & Sons Limited          |
| Daiwa Securities SMBC Europe Limited  | Numis Securities Limited               |
| Dawnay, Day & Co., Limited            | Oriel Securities Limited               |
| Deutsche Bank AG London               | Panmure Gordon & Co                    |
| Dresdner Kleinwort                    | PiperJaffray Ltd                       |
| Evolution Securities Limited          | Sanford C. Bernstein Limited           |
| Fox-Pitt Kelton Limited               | Société Générale                       |
| Goldman Sachs International           | 3i Group plc                           |
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| HBOS Treasury Services plc            | Winterflood Securities Limited         |
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