

Mr S Enevoldsen
Chairman
EFRAG
13/14 Avenue Des Arts
1210 Brussels
Belgium

Mr D Duverne
Chairman European Insurance CFO Forum
c/o Axa Group
25 Rue Matignon
75008 Paris

Dear Mr Enevoldsen,

We have read with interest your proposed comment letter to the IASB in respect of their proposals surrounding fair value measurement.

The CFO Forum has considered the IASB's proposals and like EFRAG have a number of reservations surrounding the scope and content. We have not commented directly on your draft response, rather we have attached under the cover of this letter our draft joint letter with the Comité Européen des Assurances ("CEA"), Group of North American Insurance Enterprises ("GNAIE") and the Japanese Life Insurers to the IASB. This is subject to final approval by the signatories early next week.

The main points that we have raised in response to the discussion paper relate to the scope of application of fair value, the definition of fair value and finally the implications of the proposed fair value methodology on revenue recognition. We agree with EFRAG's comments regarding scope and definition, but would urge EFRAG to consider raising the prominence of the issue of revenue recognition. See our comments below where we have provided briefly below some context in respect of each of these items and in the attached letter.

Scope

We do not believe that the discussion appropriately addresses the question of 'where to' apply fair value and focuses far more on the 'how to' measure fair value. Our view is that this standard was developed in a US GAAP framework which is not necessarily in conformity with the application of fair value in IFRS.

Definition of fair value

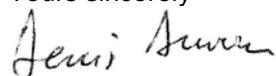
The discussion paper provides useful guidance on the use of exit value as a method for determining the fair value of an asset or liability. We do not believe that due consideration has been given to alternative approaches to the measurement of fair value that are currently accepted as being under the umbrella of the general term 'fair value'.

Implications for revenue recognition

It does not appear that due consideration has been given to the implications of these proposals on revenue recognition, in particular, the recognition of day one gains and losses. We think this is essential before the development of this discussion paper into an exposure draft. We note that your draft comment letter identifies this as an issue in Para A2.43c, we believe that this is a significant issue for a number of industries and of sufficient importance that it should be expanded and included as one of the main points in your summary within the covering letter.

If you would like any clarifications on the content of our letter or the issues discussed please feel free to contact me.

Yours sincerely



Denis Duverne
Chairman European Insurance CFO Forum

Attachments

DRAFT

The European Insurance CFO Forum
Comité Européen des Assurances
Group of North American Insurance Enterprises
Nippon Life Insurance Company
Dai-ichi Life Insurance Company
Sumitomo Life Insurance Company
Meiji Yasuda Life Insurance Company

The IASB Board
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

20 April 2007

Dear Ladies and Gentlemen

Subject: Discussion paper on Fair Value Measurements

We have read your proposals and welcome the opportunity to comment on your Discussion Paper on Fair Value Measurements. This letter has been drafted by the European Insurance CFO Forum, which is a body representing the views of 19 of Europe's largest insurance companies, the Comité Européen des Assurances (CEA), representing 93% of the European Insurance market, the Group of North American Insurance Enterprises (GNAIE), which is a body consisting of the Chief Financial Officers of eleven leading insurance companies, and the four largest life insurance companies in Japan. The letter aims to provide a consensus view on issues impacting the Global insurance industry.

We support the objective of developing guidance on the measurement of fair value that would ensure a common understanding and consistent application of this measurement attribute. We further recognise that this is an important part of international convergence.

Given the fact that both the IASB and FASB have made clear their intention to develop future standards that will utilise a fair value measurement approach, this letter has been drafted bearing in mind both the current and potential future application of fair value within an IFRS/US GAAP converged framework and in other areas such as regulatory reporting.

General Comments

The guidance proposed by SFAS 157 considers only 'how to' measure fair value without considering 'where to' use fair value. We believe that this is a fundamental flaw in the IASB's approach and would urge the IASB to undertake a comprehensive review of the intended usage of the term fair value, alongside the development of the guidance on 'how to' measure fair value. We believe that this should be an iterative process as one cannot be completed in isolation from the other.

We believe significant additional work is needed to better define 'fair value', which is currently limited to an exit value notion, in a way that will ensure all appropriate current and potential future applications of this measurement attribute will be adequately covered by the definition.

It is important to note that SFAS 157, the basis of this discussion paper, was developed within the US GAAP framework which requires and/or permits the use of fair value as a

measurement basis in situations that are not in complete conformity with IFRS. As such, the scope of this proposed guidance within the IFRS framework needs careful consideration. We do not believe that the exit value methodology as described here would be appropriate in all circumstances in which fair value is currently used in IFRS.

Furthermore, if the objective of convergence with US GAAP is to be achieved it would be necessary to achieve consistency on the use of fair value terminology in both US GAAP and IFRS.

Linkage to the IASB's project on Phase II and measurement of insurance liabilities

We recognise that the IASB is currently in the final drafting stages of a discussion paper on accounting for insurance contracts and that many of the issues addressed in this paper are relevant in measuring insurance contracts and have been considered by the IASB as part of that project. We have not sought specifically to comment in this letter on the impact of the Fair Value measurement proposals on the measurement of insurance contracts under phase II. Rather we have commented more generally on those elements of the Fair Value Measurement proposals that could impact current and potential future practice, including issues around revenue recognition. We will respond in due course to the discussion paper on Phase II addressing further issues relevant in that context.

In addition, for the measurement of insurance contracts there is a need to carefully monitor developments in regulatory reporting. The European Commission is currently drafting a framework directive on the future solvency system, Solvency II. An important building block of the Solvency II system, as well as other capital adequacy regimes, is the measurement basis for assets and liabilities. The development of Solvency II, as well as other capital adequacy regimes, and the future accounting standard for insurance liabilities are key area of interest for our industry.

Exit price measurement objective

The discussion paper provides useful guidance on the application of a current exit value methodology. However we believe that this approach is not valid in all circumstances in which it is appropriate to use fair value. We do not believe the discussion paper gives sufficient consideration to alternative approaches to the measurement of fair value that are currently accepted as being under the umbrella of the general term 'fair value' and may provide more reliable information in many situations for example transactions where there is no active market, such as business combinations and certain liabilities recognized under IAS 37. We do not believe it is appropriate to define fair value in all circumstances as an exit value.

Recognition of day 1 gains

Furthermore, in measuring fair value it is essential to pay due consideration to the implications for profit recognition. This does not appear to have been properly considered within the discussion paper. There is a presumption that at initial recognition a current exit value is always the most appropriate measurement basis. In circumstances where the current entry and current exit values differ, for example in the situation of moving between two markets, or a change in unit of account, it is not clear why inception (or day one) is always the most appropriate point in time to recognise a gain, being the difference between entry and exit values. This may not be appropriate in the case of construction contracts, long term energy contracts or any long term contract for the supply of a service.

We believe further consideration of the implications of these proposals on revenue recognition is required before the IASB progress any further towards the publication of a standard on fair value measurement.

Market participant view

We are concerned about the IASB's proposal to require in all circumstances a market participant view based on a hypothetical transaction in a hypothetical market. In our view as the level of market observable data decreases i.e as you move down the fair value hierarchy, the relevance of entity specific information increases. We believe that it is appropriate to

consider the entity's strategy and management's approach to the provision of goods and services, including costs, in estimating the cash flows that a buyer would consider in arriving at a sensible economic valuation of the business. The alternative of using assumptions to arrive at hypothetical market average cash flows would provide less relevant information. The discussion paper does not provide sufficient clarity around the definition of the term 'market', and what would constitute a market. The IFRS framework has historically utilised the concept of a knowledgeable, willing party in an arms length transaction. It is not clear whether one buyer and seller, which is implied by the existing concept, would constitute a market as currently envisaged in the discussion paper.

We believe that a framework for fair value measurement should be developed that would align fair valuation strategies used in practice, in arriving at true economic valuations for the purposes of real market transactions, with that required for financial reporting. We are concerned that the current approach, by prohibiting the use of entity specific information could create differences that would undermine the objective of reporting a true economic "fair value".

Unit of Account

Profits are often made because of the entity's ability to transact between two markets. In many cases the unit of account in the entry market, for example the wholesale market is different from the unit of account in the exit market, for example the retail market. Whilst the discussion paper recognises that a change in unit of account is one reason why one might expect a difference between entry and exit value, there is no discussion of the implications for revenue recognition. Instead there is a presumption that any such profit should be recognised on day one. For example consider a property developer whose business model involves the purchase of an old disused warehouse and conversion into residential flats. The unit of account at entry is 1 and at exit it is say 20. A significant element of the profit earned in such a transaction is a consequence of the change in unit of account. Revenue recognition in such circumstances would require careful consideration

Transfer versus settlement of liabilities

The exit value methodology as outlined in the discussion paper requires liabilities to be valued on the basis of a transfer value rather than a settlement value. We believe that some features of settlement value are a more appropriate means of measurement than pure transfer characteristics in certain circumstances, notably where the principal exit market is settlement. In our view some settlement characteristics such as those related to expenses should be considered in these cases as they will reflect the expected costs that will be incurred in exiting the liability.

The discussion paper does not provide clear guidance on the definition of a transfer value in circumstances where it is not possible to transfer the liability nor does it distinguish between a transfer that constitutes an indemnity and a transfer that results in the novation of the contract. This should be addressed as in our experience there is a price differential in practice.

Credit risk

We recognise that it is common for financial instruments to price credit risk into their fair value and note that it is often deemed appropriate, within current accounting guidance, to adjust the value of an asset to reflect the risk of non-performance. That said, we believe the consideration of credit risk in regards to liabilities, can often lead to counter intuitive accounting.

As an industry we believe it would be wholly inappropriate to recognise within our income statement amounts that have arisen due to the fact that the credit standing of our business has changed. From our perspective this would be a misleading representation of the profitability and the financial position of our business.

Disclosure

We recognise that disclosure is an important element of the overall objective of the conceptual framework. However, we consider that the disclosure of fair value information

within the current IFRS Framework is more extensive than that within US GAAP. In considering the need, if any, to add further fair value disclosures we suggest that the IASB review the requirements within the existing standards that utilise the fair value measurement basis.

We hope that you have found our comments helpful and would be very happy to provide further information on any of the points raised in this letter. Representatives of each of the bodies to this letter would be willing to participate in any future discussions or round tables that you may hold in relation to fair value measurement.

Kind regards

Denis Duverne, Chairman
European Insurance CFO Forum

G rard de La Martini re, President
Comit  Europ en des Assurances

Jerry M. de St. Paer, Chairman
Group of North American Insurance Enterprises

Yoshinobu Tsutsui, Managing Director
Nippon Life Insurance Company

Kazuma Ishii, Managing Executive Officer
Dai-ichi Life Insurance Company

Koji Hanaoka, Managing Director
Sumitomo Life Insurance Company

Hiroaki Tonooka, Managing Executive Officer
Meiji Yasuda Life Insurance Company