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Le Président

JFL/

n°

Paris, November 16th 2007

Peter CLARK

International Accounting Standards Board

30 Cannon Street

London EC4M 6XH

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INSURANCE CONTRACTS DISCUSSION PAPER

Dear Mr Clark,

I am writing on behalf of the CNC to give you our views on the above-mentioned Discussion Paper. Our detailed responses to the questions in the DP will be sent to you in a separate mail in a short period of time.

1. Interaction with other relevant IASB projects

We think several proposals expressed in the discussion paper relate to fundamental issues that are currently under consideration by the Board on other IASB projects. We regret that the IASB work plan timetable does not allow us further considerations of the impact that the DP proposals could have on these other relevant IASB projects and *vice versa*, notably:

- The conceptual framework project, particularly the phases on :
 - Objectives and qualitative characteristics
 - Measurement
 - Assets and liabilities definitions
- The revenue recognition project, particularly in the context of long term contracts such as insurance contracts which are covering risks and providing associated services over several years.
- The fair value measurement project
- The project on amendments to IAS 37 which is about non financial liabilities measurement and recognition (in particular the definition of constructive obligations)

- The liabilities and equity project (modified joint project with FASB)
- The financial instrument project which aims to replace the existing standards, particularly for the measurement issues identified on non quoted financial instruments (and which are not held for sale) which are very similar to insurance contracts measurement issues

However, we agree that IFRS 4 *Insurance contracts* is an interim standard which needs to be improved as soon as possible as decided at the inception of the Insurance project. As Phase 2 is intended to produce a long term standard, we are nevertheless concerned about the consequences on the future new standard that the other relevant projects could have when they are finalised. Obviously, if the future new standard were also a second interim standard this would be highly undesirable (for users with respect to financial communication, as for management and information systems).

We draw your attention to the fact that our comments relate only to contracts within the scope of the future standard and do not pre-empt the answers we could make for other industries. We think that the proposed measurement base i.e. current exit value (subject to our following comments in §2.) is relevant to the insurance business model. This does not mean that in situations other than insurance contracts the current exit value will best reflect the future cash flows and be the most appropriate measurement model.

In this respect, we reproduce our response to the DP Fair value measurement §2.1. « *The measurement phase in the conceptual framework project* »: *The DP proposals should be examined in the light of the principles determining when each measurement base is appropriate. We recommend that the DP proposals should be postponed until the appropriate criteria are defined. We suggest that these criteria should include:*

- (a) *Whether the measurement objective is relevant to the business model of the reporting entity*
- (b) *Whether liquid markets generally exist for the types of assets and liabilities to be measured*

2. Main comments on the measurement of insurance liabilities

2.1. Prospective measurement model

We think that insurance liabilities have to be measured according to a prospective measurement model based on unbiased estimates of future cash flows, a current discount rate, and an explicit unbiased risk margin.

- In most contracts, no nominal amounts of cash out flows are defined at the inception of either insurance contracts, or investment contracts with DPF. Rather, the cash out flows, their amounts and/or their occurrence depend on many interdependent factors that vary according to uncertain events. Moreover, the whole insurance business depends on the mutualisation of these contracts. Due to these uncertainty and interdependency (increased by the mutualisation feature), the insurance liabilities have to be measured from a prospective measurement model based on future cash flows expected by the insurers.
- We believe this prospective measurement model would provide a useful information to the users as it would be consistent with the financial information which at the present time is provided to them, based on the embedded value (a similar prospective model in line with the business model of the insurers).

At this stage we have no comments on the name to be given to the measurement attribute, the key question being what it encompasses. Nevertheless, the proposed definition relies on the hypothetical transfer of these liabilities to another entity (transfer value) which some do not consider relevant for a liability which in the vast majority of cases will be settled by the insurer himself.

In the prospective measurement model proposed in the DP, the Board includes a service margin into the third building block in addition to the risk margin. In our view it is not

necessary to add a service margin as the future servicing cash flows are taken into account in the prospective measurement base mentioned above in the same way as other contractual cash flows. The principles underlying the service margin proposed in the DP should be discussed as part of the revenue recognition project

Contrary to the view expressed in the DP, we think there could be a significant difference between insurance liabilities measured according to a prospective model and the premiums received by the insurers.

Considering :

- that insurance contracts represent a service over a long period and that revenue recognition principles should reflect this time spread as with other services,
- that the insurer does not intend to transfer its contracts,

the measurement model should not lead to recognition of day one profit.

For the above reasons, we propose that the difference between insurance liabilities measured according to a prospective model and the premiums received net of acquisition costs (i.e. initial surplus) should be taken into the net income statement over the life of the contract as and when the services are rendered.

- At the inception of the contract the initial surplus should be recognised in equity as an item of “Other Comprehensive Income”. This proposal is consistent with the requirements of certain other current standards (in particular with the requirements of IAS 39 with respect to the variations in the fair value of certain financial instruments)
- According to developments in other projects and more particularly in the revenue recognition project and the debt/equity project an alternative treatment preferred by some would be to recognise the initial surplus as a separate liability distinct from the insurance liability measured according to the prospective model as indicated above.

2.2. Key assumptions

Without taking position on the alternative definition to which our remarks might lead, we wish to express our disagreement with certain key assumptions underlying the model proposed in the DP:

- Servicing costs

We consider that entity specific cash flows should be taken into account to determine servicing costs as it seems more relevant for the measurement of insurance liabilities to reflect the costs that will effectively be borne by the entity.

- Policyholder behaviour

We consider the inclusion of future premiums for existing contracts an integral part of the proposed measurement model as these premiums represent expected cash inflows from the contracts held by the insurer. They should therefore be taken into account in the measurement of the liabilities just like other prospective cash flows that are already based on policyholder behaviour e.g. duration of the premiums received. The fact that, in certain cases they may include policyholder options which may turn out to be beneficial to the issuer does not mean that it will not be advantageous for the policyholder to exercise them. In many cases, in practice, such options are also beneficial to the policyholder

In this context, it is necessary to determine which cash flows should be taken into account whilst distinguishing existing and future contracts. However, we do not think the criterion proposed by the DP with the concept of “guaranteed insurability” will enable all the relevant cash flows (as defined above) to be determined on an economic basis consistent with current exit value. We think that the “guaranteed insurability” concept is a starting point that needs to be taken further and be developed along the lines indicated above.

Moreover, this principle must be equally applicable to investment contracts with DPF as they are managed together with the insurance contracts and are measured according to the same model as that proposed for insurance contracts (see §3. below).

- Credit characteristics of insurance liabilities

We do not agree with taking credit risk into account in measuring insurance liabilities. In our opinion, the inclusion of credit risk in measuring liabilities is part of a wider debate. The Framework review project is an opportunity to discuss user needs in this respect and in particular those of creditors.

- Risk margin

We agree that the risk margin should be an explicit and unbiased estimate of the margin that market participants require for bearing risk in place of the entity, i.e. the margin which covers the uncertainty associated with the liability and in this respect corresponds to the required compensation.

However, considerable debate has taken place on the determination of this margin because of the lack of clarity of the DP which stipulates that the objective of the risk margin is to convey useful information to users about the uncertainty associated with the liability.

Some commentators consider that the two concepts, covering the uncertainty and compensation are not identical and that compensation could include an additional element of remuneration. If this were the case, we would urge the Board to clarify this point .

- Unit of account

We agree that the relevant unit of account is the portfolio of contracts. It appears to us, however, that the portfolio definition criteria (risks broadly similar, managed together) does not reflect necessarily the way in which the contracts are managed by insurers. Portfolios should, in our view, be defined by reference to the risk management criteria used by the entity (i.e. pricing, management, measure of performance...).

- Unbundling

We are not in favour of unbundling as set out in the DP except where there is an obvious juxtaposition of several contracts.

Where measurement is interdependent the valuation by difference as proposed by the DP would lead to a misleading information. A contract with interdependent components should be measured using a single model in order to avoid economically anomalous results.

3. Treatment of DPF and investment contracts with DPF

We are concerned that the measurement of investment contracts with DPF is not dealt with in the DP given that these contracts are within the scope of the current version of IFRS 4 and that the DP deals with DPF.

- Treatment of investment contracts with DPF

We consider that the scope of IFRS 4 Phase 2 should include investment contracts with DPF. This extended scope of IFRS 4 allows the contracts with DPF to be measured and accounted for the same way whatever the contract qualification, insurance or investment. This is all the more important that this homogeneous treatment is indeed necessary to reflect the ALM of insurers:

- The same assets are backing both categories of contracts, insurance & investment. Most of the time, they are pooled and managed together.
- In the most frequent case where assets are pooled, their yield is feeding the annual discretionary participation of both insurance and investment contracts. The underwriting result of insurance contracts is often added to the participation global amount that is to be shared between contracts whatever their IFRS qualification is (insurance or investment).

▪ Recognition and measurement of DPF

We consider that insurance contract liabilities should reflect the expected amount of DPF as the liabilities are measured using a prospective model. A measurement principle limited to the enforceable amount would be inconsistent with the other assumptions used in the model proposed in the DP, in particular with respect to future cash flows from contracts and modelling the behaviour of policyholders. Furthermore, policyholders do have a valid expectation to receive a discretionary participation above the minimum, notably:

- Policyholders pay more for discretionary participating contracts than for guaranteed income contracts.
- Contracts say that they will get a discretionary participation (just as for instance the French Insurance regulation also does).
- Past experience shows policyholders that they received more than the minimum.

Consequently, the application of the recognition principles for non-financial liabilities per IAS 37 to discretionary insurance liabilities seems inappropriate since it would limit recognition to legal obligations or enforceable constructive obligations. Indeed, these items should be recognised under the proposed prospective model like other expected cash flows from insurance contracts.

We hope you have found these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Jean-François Lepetit

INSURANCE CONTRACTS DISCUSSION PAPER

DETAILED RESPONSES

Question 1: Should the recognition and derecognition requirements for insurance contracts be consistent with those in IAS 39 for financial instruments? Why or why not?

▪ General comments

Prior to any decision, we consider that several aspects of the application of these principles to insurance contracts still need to be explored, as highlighted below.

- Many insurance contracts have an effective date subsequent to the signing of the contract. Furthermore, in certain cases, the policyholder can waive the contract within a specified period after its effective date without any penalty. Some consider that the rights and obligations arising from the contract should not be recognised before the effective date of the contract or even later, i.e. before the end of the waiver period. They consider that this corresponds to the transfer of the insurance risk. In that case, only onerous contracts would be recognised.
- We suggest that the Board clarifies the treatment of premiums receivable and policy loans in the context of Phase II. It should address whether cash inflows arising from these features are entirely included in the measurement of the liability best estimate or whether only part of them is included in the measurement, the remaining part being recognised as a separate financial asset in the balance sheet. This asset might be considered in the scope of IAS 39.
- We question the applicability of the recognition criteria defined by IAS 39 to insurance assets and reinsurance assets. The preliminary views provided by the Board concerning the accounting for reinsurance should be thoroughly discussed (see our response to Question 12).
- The Discussion Paper does not address derecognition of financial assets as it is considered by the Board to be a complex subject and also it is being dealt with in another project (§30). In addition, the Board has indicated in Appendix D that it will assess in due course whether securitisations and other innovative forms of transaction, often known as alternative risk transfer (ART), raise specific accounting issues. Under the proposed measurement model, an insurance contract could be either a net asset or a net liability. Paragraph 29 of the Discussion Paper states that derecognition of an insurance liability should follow similar requirements as those governing derecognition of financial liabilities. However, the principles of derecognition provided in IAS 39 are not the same for liabilities and assets. Therefore, the question is how IAS 39 principles for recognition and derecognition should be applied to insurance contracts.

▪ Specific comments concerning contract modifications

Difficulties appear to arise notably in circumstances where the contract is transformed from a contract initially recognised under one standard (IAS 39 or IFRS 4) to a contract relevant to another standard (IFRS 4 or IAS 39), or from a category of contracts described in IFRS 4 to another category within IFRS 4 (e.g. DPF investment contract becomes a DPF insurance contract).

- The first difficulty arises from the practical conflict between, on the one hand, principles provided in § IAS 39.40 based on a substantial modification of contractual terms and, on the other hand, principles described in IFRS 4 to qualify as an insurance

contract, which are based on significant transfer of insurance risk. Application of IAS 39 implies using a range of scenarios whereas IFRS 4 definition may be based upon a sole scenario. In effect, a significant impact arising from the scenario considered in IFRS 4 to qualify a given contract as insurance may not necessarily result in an equally significant impact based on the average impact of the range of scenarios that would be considered in the context of IAS 39.40.

- The second difficulty would be the choice of the principles to be used if IAS 39 and the new standard for insurance contracts have different bases of recognition, measurement and presentation.

The definition of an insurance contract under IFRS 4 has not yet been addressed in Phase II. We believe there is no intention to be modify it, except for possible minor changes. It is therefore necessary that the future standard considers whether and how to reconcile guidance under IAS 39 specific to contract modifications and guidance under the Phase II specific to significant insurance risk. In addition, we recommend a clarification of the accounting for contract modifications.

Question 2 : Should an insurer measure all its insurance liabilities using the following three building blocks :

- (a) explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows,**
- (b) current market discount rates that adjust the estimated future cash flows for the time value of money, and**
- (c) an explicit and unbiased estimate of the margin that market participants require for bearing risk (a risk margin) and for providing other services, if any (a service margin)? If not, what approach do you propose, and why?**

- General comments

We believe that insurance liabilities should be measured according to a prospective measurement model based on unbiased estimates of future cash flows, on a current discount rate and on an explicit unbiased risk margin.

In the prospective measurement model proposed in the DP, a service margin is included into the third building block in addition to the risk margin. In our view, it is not necessary to add such a service margin as future servicing cash flows are taken into account in the prospective measurement base mentioned above, similarly to other contractual cash flows.

Furthermore, we disagree with certain key assumptions underlying the model proposed in the DP:

- Service margin and exit value for providing services

We would like to indicate that we are surprised by the fact that there is no question in the Discussion Paper concerning the service margin which is included in the measurement of the current exit value. We think the principles underlying the service margin proposed in the DP should be discussed as part of the revenue recognition project.

For purposes of determining a current exit value, the service margin is defined as a margin that a market participant would demand in order to provide certain other services, which gives rise to some questions concerning the theoretical rationale and this measurement attribute's compliance with the framework (since according to the financial theory, no margin is provided above the one required to cover risk).

In addition, we consider that the principles underlying the determination of this service margin are inconsistent with the principles for measuring the insurance liabilities:

- For an insurance contract, the current exit value is determined in reference to probable estimated future cash flows of the contract with an additional risk margin, which represents the remuneration that would be asked by a market participant to accept the risk of uncertainty in the future cash flows.
- For a service contract, the current exit value is based on the costs with an additional service margin that represents remuneration asked by the market to provide services. It is necessary to clarify why the remuneration asked by the market is called “risk margin” in one case and “service margin” in the other. In effect, some commentators consider that the two concepts, covering the uncertainty of the future cash flows and compensation are not identical (see below § risk margin).

Consequently, if the Board intends to retain a service margin, we recommend that the Board explains (i) how it is consistent with the Framework and the principles proposed by the Board in other developing projects, and (ii) how principles for measuring service margin are consistent with the basis for measuring insurance liabilities.

- Risk margin

We agree that the risk margin should be an explicit and unbiased estimate of the margin that market participants would require for bearing risk in place of the entity, i.e. the margin which covers the uncertainty associated with the liability and in this respect corresponds to the required compensation.

However considerable debate has taken place on the determination of this margin because of the lack of clarity of the DP which stipulates that the objective of the risk margin is to convey useful information to users about the uncertainty associated with the liability.

Some commentators consider that the two concepts, covering the uncertainty and compensation are not identical and that compensation could include an additional element of remuneration. If this were the case, we would urge the Board to clarify this point.

- Current market discount rate

The Discussion Paper does not describe the basis for adjusting the discount rate to reflect illiquidity :we are wondering what the notion of liquidity means in the context of an insurance contract.

We have therefore considered taking into account the liquidity in the two following approaches:

- Transfer between two market participants
- Contractual cash flows between the insurer and the policyholder

On an illiquid market, which is the case of a transfer between two market participants, we question both the basis for reflecting illiquidity and the way it can be measured. In our view, this principle of illiquidity is contrary to the definition of the current exit value which is based on a hypothetical market (perfect and liquid). If financial statements were to try to modelize such market-specific feature their reliability would clearly become questionable.

Regarding contractual cash flows, we consider that the liquidity or illiquidity of the contract (from the policyholder’s perspective) is already taken into account in the measurement of the liabilities. In fact, the measurement includes the timing of contractual cash flows and the estimated surrenders in the different scenarios and the associated risk margin. It would be inconsistent to take the illiquidity twice in the measurement.

Some argue that illiquid financial instruments yield higher returns than liquid financial instruments. They consider that if the premium paid by the policyholder includes the expected returns related to the invested assets, the liabilities should also reflect these returns.

We do not agree :

- First, we think this unrealised gain - because liquidity is intrinsically a risk-related concept- should be recognised in the same way than the risk margin and not at the inception of the contract.
- Second, this is not consistent with the paragraph 69 of the DP which clearly states that : "the objective of the discount rate is to adjust estimated future cash flows for the time value of money in a way that captures the characteristics of the liability, not the characteristics of the assets viewed as backing those liabilities."

Furthermore, from a practical point of view, we wonder how it could be measured. In effect, it is very difficult to distinguish the credit risk from the liquidity risk in the spread of a corporate bond, for instance.

On this basis, we consider that it would be inconsistent to adjust the discount rate to reflect illiquidity. If our analysis does not reflect the board's intention, we ask for clarification.

- Cash flows

We do not agree with the requirement to exclude from estimated cash flows entity-specific cash flows for servicing costs that would not arise for other entities assuming an identical obligation. We consider that entity-specific cash flows should be taken into account to determine servicing costs as it seems more relevant for the measurement of insurance liabilities to reflect the costs that will effectively be borne by the entity.

Therefore, we ask to delete references to market participants in paragraphs E24c, E24h and changes made to paragraphs E27 and E28 and also ask the Board to consult users of financial statements on this question.

Question 3: Is the draft guidance on cash flows (appendix E) and risk margins (appendix F) at the right level of detail? Should any of that guidance be modified, deleted or extended? Why or why not?

- General comments

We think that the main purpose of guidance is to illustrate a principle. The new IFRS should remain principles-based as the situations can vary within a country and across the world.

- Draft guidance on cash flows (Appendix E)

We agree with the Board on the necessity to illustrate, in the Application Guidance, cash flows that should or should not be taken into account in the determination of the current exit value and how they are determined.

Overall, we agree on the need to include information in the Application guidance that is useful and adaptable.

- Draft guidance on risk margin (Appendix F)

The information given in the Application Guidance appears to us to be useful and adaptable.

The Board has indicated that there is no intention to describe any one particular method to be used to determine the risk margin (§86c). For this reason, Appendix F defines only the criteria to be used to determine an approach that is more relevant.

It is probable that in a number of cases there will be several approaches that could be used to meet the criteria. As indicated in paragraph F3(i), each insurance entity should select an approach that builds on models used internally to run their business (such as an economic capital model, an embedded value model or a model developed for solvency...). However, models developed by different entities could result in different approaches or in different calibrations and, therefore, the application of paragraph F3(i) does not guarantee full comparability of financial statements across different insurers.

Therefore and in order to respect the criteria of paragraph F3(h) - i.e. that the approach should make it easy to provide concise and informative disclosure, and for users to benchmark the insurer's performance against the performance of other insurers- it would appear necessary to include a requirement to disclose information on the approach and the principal assumptions used to enable users to carry out this benchmark. This information could, for example, take the form of disclosure of a confidence level that corresponds to the liability recorded in the accounts (best estimate plus risk margin).

Question 4 : What role should the actual premium charged by the insurer play in the calibration of margins, and why?

Please say which of the following alternatives you support.

(a) The insurer should calibrate the margin directly to the actual premium (less relevant acquisition costs), subject to a liability adequacy test. As a result, an insurer should never recognise a profit at the inception of an insurance contract.

(b) There should be a rebuttable presumption that the margin implied by the actual premium (less relevant acquisition costs) is consistent with the margin that market participants require. If you prefer this approach, what evidence should be needed to rebut the presumption?

(c) The premium (less relevant acquisition costs) may provide evidence of the margin that market participants would require, but has no higher status than other possible evidence. In most cases, insurance contracts are expected to provide a margin consistent with the requirements of market participants. Therefore, if a significant profit or loss appears to arise at inception, further investigation is needed. Nevertheless, if the insurer concludes, after further investigation, that the estimated market price for risk and service differs from the price implied by the premiums that it charges, the insurer would recognise a profit or loss at inception.

(d) Other (please specify).

We think that insurance liabilities have to be measured according to a prospective measurement model based on unbiased estimates of future cash flows, on a current discount rate, and on an explicit unbiased risk margin. The premium (less relevant acquisition costs) may provide evidence of the margin that market participants would require, but has no higher status than other possible evidence.

Contrary to the view expressed in the DP, we think there could be a significant difference between insurance liabilities measured according to a prospective model and the premiums received by the insurers.

Considering:

- that insurance contracts represent a service over a long period and that revenue recognition principles should reflect this time spread as with other services,

- that the insurer does not intend to transfer its contracts,

the measurement model should not lead to recognition of day-one profit.

For the above reasons, we propose that the difference between insurance liabilities measured according to a prospective model and the premiums received net of acquisition costs (i.e. initial surplus) should be taken into the net income statement over the life of the contract as and when the services are rendered.

- At the inception of the contract the initial surplus should be recognised in equity as an item of “Other Comprehensive Income”. This proposal is consistent with the requirements of certain other current standards (in particular with the requirements of IAS 39 with respect to the variations in the fair value of certain financial instruments).
- According to developments in other projects and more particularly in the revenue recognition and the debt/equity projects, an alternative treatment preferred by some would be to recognise the initial surplus as a separate liability distinct from the insurance liability measured according to the prospective model as indicated above.

Question 5 : This paper proposes that the measurement attribute for insurance liabilities should be the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. The paper labels that measurement attribute ‘current exit value’.

(a) Is that measurement attribute appropriate for insurance liabilities? Why or why not? If not, which measurement attribute do you favour, and why?

We think that insurance liabilities have to be measured according to a prospective measurement model based on unbiased estimates of future cash flows, on a current discount rate, and on an explicit unbiased risk margin.

(b) Is ‘current exit value’ the best label for that measurement attribute? Why or why not?

At this stage we have no comments on the name to be given to the measurement attribute, the key question being what it encompasses. Nevertheless, the proposed definition relies on the hypothetical transfer of these liabilities to another entity (transfer value) which some do not consider relevant for a liability which in the vast majority of cases will be settled by the insurer himself.

Question 6 : In this paper, beneficial policyholder behaviour refers to a policyholder’s exercise of a contractual option in a way that generates net economic benefits for the insurer. For expected future cash flows resulting from beneficial policyholder behaviour, should an insurer:

(a) incorporate them in the current exit value of a separately recognised customer relationship asset? Why or why not?

(b) incorporate them, as a reduction, in the current exit value of insurance liabilities? Why or why not?

(c) not recognise them? Why or why not?

We are in favour of incorporating the expected future cash flows resulting from beneficial policyholder behaviour as a reduction of the current exit value (b).

We consider the inclusion of future premiums for existing contracts an integral part of the proposed measurement model as these premiums represent expected cash inflows from the contracts held by the insurer. They should therefore be taken into account in the measurement of the liabilities just like other prospective cash flows that are already based on policyholder's behaviour e.g. surrenders (incorporated in the probability-weighted estimation of the duration of the premiums received). The fact that in certain cases they may include policyholder's options which may turn out to be beneficial to the issuer does not mean that it will not be advantageous for the policyholder to exercise them. In many cases, in practice, such options are also beneficial to the policyholder.

In this context, we agree the key issue is to determine which cash flows should be taken into account whilst distinguishing existing and future contracts.

Question 7 : A list follows of possible criteria to determine which cash flows an insurer should recognise relating to beneficial policyholder behaviour. Which criterion should the Board adopt, and why?

(a) Cash flows resulting from payments that policyholders must make to retain a right to guaranteed insurability (less additional benefit payments that result from those premiums). The Board favours this criterion, and defines guaranteed insurability as a right that permits continued coverage without reconfirmation of the policyholder's risk profile and at a price that is contractually constrained.

(b) All cash flows that arise from existing contracts, regardless of whether the insurer can enforce those cash flows. If you favour this criterion, how would you distinguish existing contracts from new contracts?

(c) All cash flows that arise from those terms of existing contracts that have commercial substance (i.e. have a discernible effect on the economics of the contract by significantly modifying the risk, amount or timing of the cash flows).

(d) Cash flows resulting from payments that policyholders must make to retain a right to any guarantee that compels the insurer to stand ready, at a price that is contractually constrained, (i) to bear insurance risk or financial risk, or (ii) to provide other services. This criterion relates to all contractual guarantees, whereas the criterion described in (a) relates only to insurance risk.

(e) No cash flows that result from beneficial policyholder behaviour.

(f) Other (please specify).

The criterion (a) favoured by the Board seems to respond in some way to the objective of relevance of the insurance liabilities as it includes only relevant cash flows. But we think that the criterion proposed by the DP with the concept of "guaranteed insurability" could be improved to also cover cash flows in other relevant cases.

Indeed, at this stage, we note that for several French contracts, the concept of "guaranteed insurability" may not enable all relevant cash flows (as defined in question 6) to be included in the measurement of the insurance liabilities on a basis consistent with the economy and the pricing of the contract. This could be the case, for example, of:

- Future premiums on some French Life insurance contracts (with optional or planned non-enforceable payments),
- Future premiums on retirement plans, in which the policyholder subscribes with a long-term approach and the future premiums are not always contractually constrained.

The economy of these contracts and their pricing are based on assumptions of policyholder's behaviour and future premiums, allowing for high acquisition costs; profitability is achieved over time.

The criteria (b) and (d) seem, in some respects, to enable all the relevant cash flows (as defined in question 6) to be included in the measurement of the insurance liabilities:

- however, in order to determine which cash flows should be taken into account whilst distinguishing existing and future contracts, it could be interesting to refer to some existing performance reporting models such as the "European embedded value" ;
- including financial risks and other services is consistent with the pricing of the contracts.

The same principle that determines cash flows to be taken into account should be also applicable to investment contracts with DPF as they are managed together with insurance contracts and, in our opinion, should be measured according to the same model as that proposed for insurance contracts.

In this context, we understand the difficulties to determine a relevant criterion but we think that the "guaranteed insurability" concept is only a starting point that needs to be taken further and thoroughly tested on the above contracts prior to any conclusion.

Question 8 : Should an insurer recognise acquisition costs as an expense when incurred? Why or why not?

We agree that an insurer should recognise acquisition costs as an expense when incurred since insurance liabilities are measured in a prospective measurement model.

Consequently, it is important that the prospective measurement model takes into account all the relevant contractual cash flows (see questions 6 and 7).

Question 9 : Do you have any comments on the treatment of insurance contracts acquired in a business combination or portfolio transfer?

We think that the IASB should first conclude on the differences or similarities between current exit value and fair value. Without such a conclusion, it is impossible to clearly appreciate the potential consequences of such differences on the recognition and measurement of contracts written by insurers in the context of a business combination (or a portfolio transfer) on acquisition date and in subsequent measurement periods.

We believe that it is important to maintain a consistent basis of measurement of insurance liabilities between those liabilities that are acquired in a business combination / portfolio transfer and those liabilities that are originated by the insurer.

If the Board concludes that the measurement basis of insurance contracts is different from the notion of fair value, we consider that the use of an 'expanded presentation' should be required. This approach differs from the current guidance provided in IFRS 4 which makes the use of 'expanded presentation' optional.

In performing the necessary analysis of the implications of using a two-different-notions approach (fair value and current exit value), the following objectives should be considered:

- an identical basis for the recognition and measurement of insurance liabilities at the acquisition date and in subsequent periods ;

- an identical basis for the recognition and measurement of insurance liabilities in a business combination or in a portfolio transfer which does not qualify as a business combination. We think that the term ‘portfolio transfer’ has not necessarily the same meaning across different jurisdictions. We recommend that the future standard defines it clearly (and if necessary includes guidance) so that it clarifies when a portfolio transfer must be considered a business combination as defined in IFRS 3 ;
- absence of a reassessment of contract classification (and separation of embedded derivatives) at the acquisition date of a business combination or a portfolio transfer. In addition, in our opinion and in reference to the difficulty in distinguishing between whether portfolio transfers qualify or not as business combinations, we suggest that the future standard prescribes that contract reassessment should not be applied in the case of a portfolio transfer.

Question 10 : Do you have any comments on the measurement of assets held to back insurance liabilities?

One of the objectives of the proposed measurement model is both to provide a clearer reporting of any economic mismatch between insurance liabilities and related assets and to minimise accounting mismatches. We agree that applying the recognition and measurement criteria defined in the DP, i.e. using the prospective measurement model, would generally achieve that objective. However, we would like to point out that it may not permit to achieve it in all cases as the assets are marked to market and the liabilities are marked to model (see question 20).

Concerning the assets held to back unit-linked liabilities, please refer to question 17.

In addition, we consider that the new IFRS should permit a re-designation of financial assets between the categories under IAS 39 when the new IFRS is first applied.

Question 11 : Should risk margins

(a) be determined for a portfolio of insurance contracts? Why or why not? If yes, should the portfolio be defined as in IFRS 4 (a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio)? Why or why not?

(b) reflect the benefits of diversification between (and negative correlation between) portfolios? Why or why not?

We agree that the relevant unit of account is the portfolio of contracts. It seems to us, however, that the portfolio definition criteria (risks broadly similar, managed together) may not necessarily reflect the way in which insurers manage their contracts. Portfolios should, in our view, be defined by reference to the risk management criteria used by the entity (i.e. pricing, management, measure of performance...).

Question 12 : Should a cedant measure reinsurance assets at current exit value? Why or why not?

We agree that in order to give useful information on insurance risk to users of financial statements, it is important that assets and liabilities arising from reinsurance arrangements are measured on a basis consistent with the measurement of the assets and liabilities of the underlying insurance contracts.

(b) Do you agree that the consequences of measuring reinsurance assets at current exit value include the following? Why or why not?

(i) A risk margin typically increases the measurement of the reinsurance asset, and equals the risk margin for the corresponding part of the underlying insurance contract.

We agree that the current exit value of a reinsurance asset is higher than the best estimate of the related cash flows as it includes (in addition) a risk margin (§206). The value of the insurance liabilities, net of reinsurance, indeed takes into account the fact that the reinsurance contract mitigates all or a part of the risk before reinsurance, the latter being reflected in the risk margin recognised for the underlying gross liabilities. It therefore appears conceptually logical to consider that the reinsurance asset should include a risk margin as well. That margin will reflect the mitigation of the risk by the reinsurance contract but will not necessarily equal the risk margin for the corresponding part of the underlying insurance contract as the mitigation effect might not be proportional with the amount of ceded insurance liabilities.

(ii) An expected loss model would be used for defaults and disputes, not the incurred loss model required by IFRS 4 and IAS 39.

We agree that in order to measure default risk and litigation risk arising from reinsurance contracts, the model should be based on expected losses, as it is consistent with the current exit value model used to measure these contracts.

(iii) If the cedant has a contractual right to obtain reinsurance for contracts that it has not yet issued, the current exit value of the cedant's reinsurance asset includes the current exit value of that right. However, the current exit value of that contractual right is not likely to be material if it relates to insurance contracts that will be priced at current exit value.

We agree that if the assumptions or terms are fixed, the reinsurance contract could have a (positive or negative) value for the cedant even if the underlying insurance liabilities are not yet underwritten or recorded. We believe that according to the principle for determining current exit value for reinsurance ceded, this value should not be recognised for accounting purposes. The reasons are those that were also highlighted by the Board and noted again below :

- The reinsurance ceded is a cover that is destined to reduce the variability of net cash flows of the insurer.
- The current exit value of the reinsurance asset exists only if there are underlying liabilities (which are the object of the cover) to transfer. When the underlying insurance contracts are not yet in place, they do not trigger the recognition of a liability and, therefore, the value of the reinsurance ceded can not be recognised.

Question 13 : If an insurance contract contains deposit or service components, should an insurer unbundle them? Why or why not?

We do not agree with the preliminary views of the Board described in paragraph 228, because we do not agree with the general approach according to which each insurance contract is not measured in its entirety as one contract (at contract level) taking into account all its characteristics (including guarantees and options as well as the policyholder's behaviour) as a whole.

The bifurcation and separate measurement of the different components of the contract appear to us to lead or at least create the possibility to separate elements that are intrinsically related. In our view, this adds complexity to the measurement process without increasing reliability and / or relevance of the financial statements. Actually, we believe that this could even reduce reliability because of the risk of using inconsistent assumptions in measuring the different components.

a) Separation of the deposit component

We disagree with the obligation to bifurcate insurance contracts into their components which are judged not to be interdependent. The absence of interdependence is a question of judgement and there is a risk that in a large number of cases, this could be arbitrary, and create in practice sources of divergent treatments and measurements between entities. This would undermine comparability. Consequently, this approach does not appear to demonstrate that this information would be more relevant to users of financial statements.

The criteria of «arbitrary basis» and «interdependent» are used by the Board to distinguish between options (a), (b) and (c) described in para 228. Because these notions are not defined, there is a risk that the application could result in different interpretations, thus questioning the reliability and comparability of financial statements. In the absence of precision, it is not possible to say if the criteria of interdependence used here are identical to those highlighted in para B25 of IFRS 4.

In addition, if the concept of interdependence between components includes cases where (i) there is a strong presumption that the amounts charged to policyholder for each component are not determined in an independent manner and (ii) surrenders or cancellations of the contracts affect all the components, the possibility to separate a contract would appear to be very rare and possibly non-existent. However, the unbundling according to para 228(b) will be a source of complexity that is arbitrary; it will also increase the cost of putting into place the necessary IT systems.

Also, we are not sure of the usefulness of the application of para 228 (c). We find that its application could be misleading because, even if the underlying contract is an insurance contract, a greater significance is given to the valuation of the deposit component, the insurance component being seen as “plug”, not deserving to be assessed on its own with reference to current exit value. It is, consequently, an artificial valuation of the insurance component.

Actually, we have noted that the principle consists of a presentation of two parts: (i) a deposit floor, being an amount measured according to the fair value option or amortised cost but no less than the deposit floor, and (ii) a residual value, possibly an asset, which in fact could eliminate the relevance of a deposit floor if the value of the entire contract is lower than the amount that could be demanded on surrender. This presentation creates a purely artificial circumstance that may not be understood by users.

b) Separation of the service component

Overall, we disagree with separating the service component in the event that services are included in the insurance contract. This is because they are, in general, directly related to the insurance cover. Overall, separation could be envisaged if, in extreme circumstances, a service (or sale) was attached to the insurance contract but could not be possibly measured at the time of the origination of the insurance contract.

Question 14(a) : Is the current exit value of a liability the price for a transfer that neither improves nor impairs its credit characteristics? Why or why not?

(b) Should the measurement of an insurance liability reflect (i) its credit characteristics at inception and (ii) subsequent changes in their effect? Why or why not?

We believe that the measurement of insurance contracts, similarly to other unlisted liabilities, should not take account of credit characteristics neither at inception nor in subsequent measurement periods. We believe that users of financial statements find information to be more relevant and more reliable if the measurement of the liability reflects the contractual obligation and the basis for which such liabilities will ultimately be settled (or expected to be settled), as implied by a going-concern assumption for example. We consider that potential insolvency of the issuer should not be taken into account unless there is in fact a contractual modification.

Even though we understand that it is common to take into account credit risk for measuring financial assets at fair value, we consider that taking account of credit risk in the measurement of liabilities creates counterintuitive results (decrease in the value of the liability as credit quality deteriorates) which does not correspond, in our opinion, to the expectations of users of financial statements.

In conclusion, we do not agree with taking credit risk into account in measuring insurance liabilities. In our opinion, the inclusion of credit risk in measuring liabilities is part of a wider debate. The Framework review project is an opportunity to discuss user needs in this respect and in particular those of creditors.

Question 15 : Appendix B identifies some inconsistencies between the proposed treatment of insurance liabilities and the existing treatment under IAS 39 of financial liabilities. Should the Board consider changing the treatment of some or all financial liabilities to avoid those inconsistencies? If so, what changes should the Board consider, and why?

Participating investment contracts represent a huge chunk of French life insurers' business. Their accounting treatment is therefore of a paramount importance: it may have a significant influence on insurers' economic behaviour.

We consider that the scope of IFRS 4 Phase 2 should include investment contracts with DPF. Investment contracts with discretionary participation features are currently covered by IFRS 4. This extended scope of IFRS 4 allows the DPF feature to be accounted for in the same way whatever the qualification, insurance or investment, of contracts. This is all the more important that this homogeneous treatment is indeed necessary to reflect the ALM of insurers:

- The same assets are backing both categories of contracts, insurance & investment. Most of the time, they are pooled and managed together.

Actually, insurers' business model is based on ALM links between assets and liabilities: assets are held to hedge both insurance & investment contracts until they eventually lapse because either they are reaching their maturity or they are surrendered or the insured event happens. Economically, the insurer is seeking to optimise both (i) the matching of expected cash inflows and outflows from assets & liabilities and (ii) the assets' yield.

- In the most frequent case where assets are pooled, their yield is feeding the annual discretionary participation of both insurance & investment contracts. The underwriting

result of insurance contracts is often added to the participation global amount that is to be shared between contracts, whatever their IFRS qualification is (insurance or investment). Therefore, it would not be relevant to use different valuation bases for participating investment contracts and for participating insurance contracts.

However, assuming that applying IAS 39 to participating investment contracts may be a way of reducing the inconsistencies above, many issues stay open... which explains why participating investment contracts were included in the scope of IFRS 4 Phase 1. Amongst these open questions are for instance: is the DPF a sort of embedded derivative that should be unbundled? Is the IAS 39 fair value the same as IFRS 4 'current exit value'? How in the picture will work the 'deposit floor'? Will there be some differences in profit recognition for a participating investment contract and for a participating insurance contract? How will the amortised cost be determined? Should the 'shadow accounting' be kept alive to solve mismatches deriving from using the amortised cost? These issues are not yet addressed. Should the Board like to take back participating investment contracts in IAS 39 we would not see the rationale for it, as no change has been made to IAS 39 since IFRS 4 Phase 1 started.

Question 16 :

(a) for participating contracts, should the cash flows for each scenario incorporate an unbiased estimate of the policyholder dividends payable in that scenario to satisfy a legal or constructive obligation that exists at the reporting date? Why or why not?

We believe that for each scenario, the cash flows should incorporate an unbiased estimate of the policyholder dividend payable, based on the principle that the measurement of an insurance liability should represent faithfully the economic characteristics of that liability.

Expected cash flows should reflect discretionary participation outflows because:

- Insurers do, in France as in several other jurisdictions, have a contractual obligation to give an annual participation to policyholders which should be recorded in liability. For French insurers, a minimum obligation is also set by the French insurance regulation ("Code des assurances"). The participation is dependent on the realised financial income. In our view, French insurers have a stand-ready obligation to share the income when it is realised. The probability of earning more or less income (and thus the probability of the level of the participation one given year) shall not be taken into account to decide whether the obligation is there or not, but shall be taken into account when measuring it. In other words, the amount of the participation is not a recognition issue but a measurement issue.
- Policyholders do have a valid expectation to receive a discretionary participation above the minimum :
 - (i) First, policyholders pay more for discretionary participating contracts than for guaranteed income contracts.
 - (ii) Contracts say explicitly that they will get a discretionary participation (and so does the French insurance regulation).
 - (iii) Policyholders get information on participation at contracts' inception and annually. The annual information notably outlines the yield of assets and the amount of participation. It is a public disclosure that allows comparison between insurers and fuels competition. Management Report shall also disclose the amount of participation and the way it has been allocated to policyholders.

(iv) Past experience shows policyholders that they received more than the minimum. Statistics are available, for instance in the report of the French Insurance Supervisory Authority, ACAM. In most cases, changes in the insurer's informal practices or position in the standings would cause unacceptable damage to its relationship with policyholders.

However should the definition of a legal and constructive obligation be changed as to narrow the amount of future cash flows and to exclude some part of the expected participation payable, we would consider it as not suitable for the following reasons:

- A set objective of the Discussion Paper is to design an exit value for assessing insurance. This is rather contradictory with restricting cash flows to legal obligations given that when transactions do occur between market participants the transfer price also reflects the discretionary participation. Therefore we consider that the latter clearly constitute an additional element of the compensation that a third party would request to take over rights & obligations as no one would ever transact without the discretionary participation being assessed; as such, it should be included in the current estimate and risk margin for related insurance contracts.
- Another set objective of the Framework is to provide useful information so that users may have a clear understanding of the cash flows (in & out) that the entity would generate. Discretionary participation is a key issue in the management of a life insurance company. Financial analysts are eager to know what the Company is expecting to pay out. If ever discretionary participation were shown in equity they would have to restate it to get the 'real' liabilities.
- Insurance contracts' Asset-Liability Management is based on matching expected future cash flows of assets & liabilities. Any difference between expected cash flows of assets and expected cash flows of liabilities is a real economic mismatch and should be reflected in the balance sheet. However, liabilities will not reflect expected cash flows but only part of them. This will create an additional artificial mismatch.
- Participation payable and surrenders are closely interacting. In most models, lapse rates are defined based on the comparison between market interest rates and insurance contracts' yields. When insurance contracts' yields are low compared to financial market yields and to competitors' yields, surrenders are high and vice versa. However, to be meaningful, computing an exit value based solely on non discretionary cash flows would require to keep using realistic behaviour laws that consider that in most cases a discretionary participation payable is added to the minimum. Otherwise it would come down to stating liabilities at their 'deposit floor' value. This seems to be conceptually inconsistent: interactions between surrenders and participation do exist however it is not reflected in the computation of the 'non discretionary-based' exit value. If it would, the result would be non-realistic liabilities (i.e. 'deposit floor' liabilities) that do not reflect the real expected outflows.

(b) An exposure draft of June 2005 proposed amendments to IAS 37 (see paragraphs 247–253 of this paper). Do those proposals give enough guidance for an insurer to determine when a participating contract gives rise to a legal or constructive obligation to pay policyholder dividends?

We consider that insurance contract liabilities should reflect the expected amount of DPF as the liabilities are measured using a prospective model. A measurement principle limited to the enforceable amount would be inconsistent with the other assumptions used in the model proposed in the DP, in particular with respect to future cash flows from contracts and

modelling the behaviour of policyholders. Furthermore, policyholders do have a valid expectation to receive a discretionary participation above the minimum, notably:

- Policyholders pay more for discretionary participating contracts than for guaranteed income contracts.
- Contracts say that they will get a discretionary participation (just as for instance the French Insurance regulation also does).
- Past experience shows policyholders that they received more than the minimum.

Consistently with § 251 of the DP, we believe that the discretionary participation feature is a constructive obligation under IAS 37. In fact, IAS 37 states that a liability can be recognised for an obligation that is not legally enforceable provided that there is little, if any, discretion to avoid settling it.

However, we are worried by the narrower stance that the Board is currently forming: ‘constructive’ is now viewed as some sort of a synonym of ‘legal’. This evolution would result in liabilities that would significantly differ from transaction prices. This suggests that IAS 37 is not appropriate in the context of assessing an exit value.

IAS 37 was not designed to fix issues relating to behaviour statistics which are more complex to handle than event statistics. This is another reason why we believe that IAS 37 is not appropriate to account for discretionary participation feature.

It is also difficult to be in a position to comment on the guidance as IAS 37 is a work-in-progress. Last Board’s discussions leave open three options that would have very different impacts on the discretionary participation.

Consequently, the application of the recognition principles for non-financial liabilities per IAS 37 to discretionary insurance liabilities seems inappropriate since it would limit recognition to legal obligations or enforceable constructive obligations. Instead, these items should be recognised under the proposed prospective model like other expected cash flows from insurance contracts.

Question 17 : Should the Board do some or all of the following to eliminate accounting mismatches that could arise for unit-linked contracts? Why or why not?

- (a) Permit or require insurers to recognise treasury shares as an asset if they are held to back a unit-linked liability (even though they do not meet the Framework’s definition of an asset).**
- (b) Permit or require insurers to recognise internally generated goodwill of a subsidiary if the investment in that subsidiary is held to back a unit-linked liability (even though IFRSs prohibit the recognition of internally generated goodwill in all other cases).**
- (c) Permit or require insurers to measure assets at fair value through profit or loss if they are held to back a unit-linked liability (even if IFRSs do not permit that treatment for identical assets held for another purpose).**
- (d) Exclude from the current exit value of a unit-linked liability any differences between the carrying amount of the assets held to back that liability and their fair value (even though some view this as conflicting with the definition of current exit value).**

We support the options (a), (b) and (c) that permit to reduce accounting mismatches.

We are strongly opposed to the option (d) as it would contradict the concept of exit value. Indeed, liabilities would not give the fair view of the estimated exit value of the contracts.

In other respects, we would like to point out that the definition of unit-linked contracts given by the DP is potentially not adapted to the European context. The concept of separate account assets fits well the US context but it fails to cover European unit-linked contracts.

- For instance, French insurers are not contractually but legally committed to hold the assets underlying unit-linked contracts. Other types of French contracts require separate account assets even though benefits are not determined as being equal to 100% of the price of these assets, i.e. benefits are not unit-linked. We suggest therefore that the IASB improves the definition.
- The majority, if not all, of French unit-linked insurance contracts are « hybrid contracts », i.e. composed of one or several unit-linked funds, a with-profit fund (with guaranteed capital) and an insurance guarantee. The policyholder is allowed to switch regularly over time between the various funds (and possibly allocate all the investment in units or in the with-profit fund). Such contracts are called « multisupport ». In the case of these contracts, we wonder whether showing separately unit-linked assets and liabilities in the balance sheet would give a relevant financial information. As we consider unbundling arbitrary and costly, we would recommend that the IASB studies the specific case of the « multisupport » contracts.

Question 18 : Should an insurer present premiums as revenue or as deposits? Why?

The presentation of the premiums is crucial for the insurers as this issue could change significantly the way the financial information is provided. In our view, this issue has to be thoroughly discussed with the users and the preparers in the context of the Framework project and the Financial statement project.

Moreover, the treatment of the insurance premiums should be considered and discussed in the context of the Revenue recognition project. At the same time, it is desirable that the Board clarifies the concepts of « revenue », « deposit » and « prepayment ».

Question 19 : Which items of income and expense should an insurer present separately on the face of its income statement? Why?

The presentation of financial statements should be principle-based (as it is currently the case with IAS 1). It is important that entities retain the possibility to assess the relevance and the materiality of the information they present to users. Consequently, it is not desirable that the new insurance standard includes elements regarding the financial presentation. In our view, this issue has to be discussed in the context of the Financial statement project.

However, at this occasion, it could be interesting to discuss whether it is necessary to add some minimum specific line items related to insurance assets and liabilities directly in IAS 1 (e.g. insurance contracts).

Nevertheless, to ensure comparability between insurers, the Implementation guidance or the Basis for conclusion could include examples of financial presentation including elements regarding premiums (see question 18).

Question 20 : Should the income statement include all income and expense arising from changes in insurance liabilities? Why or why not?

- We consider that it is too early to answer this question as it is linked to other IFRS projects in process, notably the Revenue recognition project and the Financial statement

presentation project on which the IASB is expecting to issue discussion papers in the first quarter of 2008.

- From our point of view, further work needs to be conducted on variations in the income statement deriving both from mark to market assets and from mark to model liabilities : adding up these two types of variations may create a new type of mismatch in the P&L. In case of a financial crisis, this mismatch may have a significant impact on the net result of the entity. We consider that this would not reflect the long term nature of the insurance business (see question 10). Some commentators argue that to the extent that IAS 39 allows for classification of assets as available for sale with changes in fair value recognised in OCI, changes in the value of insurance liabilities due to financial factors should also be allowed to be recognised in OCI.

Question 21 : Do you have other comments on this paper?

1. Financial guarantee contracts

Currently, financial guarantee contracts that meet the definition of an insurance contract, if certain conditions are met, provide a choice for the issuer to apply either IAS 39 or IFRS 4 (IFRS 4.4(d)). The standard indicates that the issuer can make the election on a contract-by-contract basis but once the election is made it is irrevocable. This situation is not satisfactory in terms of comparability and principles.

To remind our response to your Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments Recognition and Measurement and IFRS 4 Insurance Contracts: Financial Guarantee Contracts and Credit Insurance dated October 8th, 2004 :

- (...) *The Exposure Draft gives a proposed definition of “financial guarantee contracts” which does not attempt to make a difference between credit insurance and financial guarantees, although they are fundamentally different in substance. (...)*
- (...) *We stress that the definition of “financial guarantee contracts” has to be further developed in order to acknowledge that economic differences should lead to different accounting treatments. (...)*
- (...) *We stress that these economic differences should lead to different accounting treatments: financial guarantees are very close to credit commitments and, as such, should be in the scope of IAS 39 whereas credit insurance contracts (if insurance risk is significant) are insurance contracts and should stay in the scope of IFRS 4. (...)*

We believe that financial guarantee contracts written by credit insurers should have similar treatment to other insurance contracts written by insurers as their business model is very similar. We suggest that the Board reconsiders this subject.

2. Interaction with other relevant IASB projects

We think several proposals expressed in the discussion paper relate to fundamental issues that are currently under consideration by the Board on other IASB projects. We regret that the IASB work plan timetable does not allow us further considerations of the impact that the DP proposals could have on these other relevant IASB projects and *vice versa*, notably:

- The conceptual framework project, particularly the phases on :
 - Objectives and qualitative characteristics
 - Measurement

- Assets and liabilities definitions
- The revenue recognition project, particularly in the context of long term contracts such as insurance contracts which are covering risks and providing associated services over several years.
- The fair value measurement project
- The project on amendments to IAS 37 which is about non financial liabilities measurement and recognition (in particular the definition of constructive obligations)
- The liabilities and equity project (modified joint project with FASB)
- The financial instrument project which aims to replace the existing standards, particularly for the measurement issues identified on non quoted financial instruments (and which are not held for sale) which are very similar to insurance contracts measurement issues.

However, we agree that IFRS 4 *Insurance contracts* is an interim standard which needs to be improved as soon as possible as decided at the inception of the Insurance project. As Phase 2 is intended to produce a long term standard, we are nevertheless concerned about the consequences on the future new standard that the other relevant projects could have when they are finalised. Obviously, if the future new standard were also a second interim standard this would be highly undesirable (for users with respect to financial communication, as for management and information systems).

We draw your attention to the fact that our comments relate only to contracts within the scope of the future standard and do not pre-empt the answers we could make for other industries. We think that the proposed measurement base i.e. current exit value (subject to our following comments in §2.) is relevant to the insurance business model. This does not mean that in situations other than insurance contracts the current exit value will best reflect the future cash flows and be the most appropriate measurement model.

In this respect, we reproduce our response to the DP Fair value measurement §2.1. « *The measurement phase in the conceptual framework project* »: *The DP proposals should be examined in the light of the principles determining when each measurement base is appropriate. We recommend that the DP proposals should be postponed until the appropriate criteria are defined. We suggest that these criteria should include:*

- (a) *Whether the measurement objective is relevant to the business model of the reporting entity*
- (b) *Whether liquid markets generally exist for the types of assets and liabilities to be measured*