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20 September 2002

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XIT

Dear Sirs

Comments on the exposure draft of proposed improvements to International Accounting Standards May 2002

Old Mutual Plc is an international financial services group listed on the London Stock Exchange, whose activities are focussed on asset gathering and asset management. We are the largest financial services business in South Africa, through our life assurance, asset management, banking and general insurance operations. In the US, we are one of the top ten fixed annuity businesses and our asset management business offers an array of specialist management skills. In the UK, we focus on wealth management. Gerrard, our largest UK operation, is one of the leading private client stockbroking businesses in the country.

We are currently in the process of converting to IAS by 2005 and investigating the potential impact on our financial results, systems and processes. The paper attached with this letter sets out Old Mutual plc's comments on the IASB's exposure draft of proposed improvements to International Accounting Standards dated May 2002. We have only commented on the areas which we feel have the greatest impact on Old Mutual Group. Please note that our comments are sent in strictest confidence.

If you would like to discuss any of our comments please do not hesitate to contact me or John Ross, Head of Group Finance or Katie Murray, Group Systems and Development Manager.

Yours faithfully

Julian Roberts

cc: John Ross
Katie Murray

Improvements to International Accounting Standards

Old Mutual response

20 September 2002

1. IAS 1, Presentation of financial statements

1.1 ***Question 5— do you agree that an entity should disclose the judgements made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements?***

1.2 ***Question 6— do you agree that an entity should disclose key assumptions about the future and other sources of measurement uncertainty, that have a signjficant risk of causing a material adjustment to the carrying amounts of assets within the next financial year?***

Answer to question 5 and 6

We appreciate that the IASB is currently considering as part of Phase 1 of the Insurance

Contracts Project (insurance project) presentation and disclosure issues, in particular:

- Disclosures explaining the amounts reported in the balance sheet, income statement and cash flow statement;
- Disclosures about the estimated amount, timing and uncertainty of future cash

  flows from insurance contracts; and

- Disclosures about insurance risk.

However, we are concerned that the proposed requirements set out in paragraphs 108 to 115 will have a significant impact on the disclosures required by insurance entities, but without further clarification will be interpreted differently across different companies and geographies. It is therefore critical that as part of Phase 1 of the Insurance Project, the practical application of these requirements to insura nce contracts is considered.

This is particularly relevant given the fact that estimation techniques, judgement and measurement assumptions are widely used to determine insurance liabilities given the inherent uncertainty in both the amount and timing of cash flows. Uncertainties and contingencies arising from insurance contracts can be classified for financial reporting purposes as follows:

- general uncertainties and contingencies arising where the range of outcomes for provisioning purposes is within a ‘normal’ range;

- specific uncertainties or contingencies which are material and subject to an unusually wide range of outcomes;

- uncertainties and contingent liabilities for which no provision is made in the financial statements on the basis that the possibility of the transfer of economic benefits is remote.

In addition consideration needs to be given as to whether it is appropriate for this information to be provided in the notes to the audited financial statements or in management discussion section. We believe that, unless there is fundamental uncertainty about the estimated amounts, it is more appropriate for a general description of key assumptions and judgements together with a sensitivity analysis to be provided in management discussion outside the primary financial statements.

Furthermore, it is unclear how the disclosures set out in IAS 30 'Disclosures in the financial statements of banks and other enterprises' will be modified when this standard is revised. The project summary to IAS 30 states that it's objective is to ***"help provide information needed to properly assess the financial position, financial performance and cash flows of entities that carry out deposit-taking, lending, or securities activities*** ". There are a number of areas within such activities, for example the setting of loan loss provisions, which require judgement and the application of estimation techniques. We believe it is important for the disclosure requirements surrounding deposit-taking, lending and securities activities to be considered in their entirety and believe that this would be more appropriately done within the context of the proposed revisions to IAS 30, rather than in the context of generic requirements set out in IAS 1.108 - 115. Therefore we suggest that these activities are exempted from the requirements of those particular paragraphs of IAS 1, subject to more specific guidance being given in any revision to IAS 30.

2 lAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

2.1 *Selection of accounting policies*

Our understanding is that the IASB agreed in May that it would not be realistic to expect implementation of a full recognition and measurement standard for insurance contracts by 2005. Instead the project will be split into 2 phases, a key objective of Phase 1 is to avoid creating an interim IFRS on recognition and measurement and to avoid requiring insurers to make major changes to the way insurance contracts are accounted for twice in a short period.

However the new requirement in IAS8.6 for management to consider the sources [within IAS 8.6 a - c] in descending order could inadvertently result in significant changes to the measurement and recognition framework for accounting for insurance contracts under local GAAP. This is because most local GAAPs on accounting for insurance contracts incorporate some assets, liabilities and income recognition practices that would be inconsistent either with the Framework or with existing standards. Most GAAPs are based on regulatory considerations or on the deferral and matching model.

In our view it is not appropriate for companies to apply the requirements of IAS 1.22 in strict hierarchical order as proposed in the lAS 8 ED when determining appropriate accounting policies for their insurance contracts. Instead we believe that an approach that starts by considering local GAAP as the basis for accounting of insurance contracts is more appropriate. This would probably result in fewer adjustments and greater comparability between those companies using the same local GAAP basis for their insurance contracts as well as consistency in the accounting of insurance underwriting business.

3 IAS 27, Consolidated and Separate Financial Statements

3.1 *Consolidation procedures - paragraph 21*

It is proposed that IAS 27.21 is modified to require uniform accounting policies for like transactions and other events in similar circumstances to be applied without consideration as to whether this may not be practicable.

We do not support this change, especially in light of the uncertainty currently surrounding the measurement basis for insurance contracts. Currently we are permitted[1] to aggregate local GAAP on accounting for our insurance business and report the aggregated information in our consolidated financial statements. At present our insurance business within the United States is required to be measured for local reporting and regulatory purposes on a gross premium basis, within the United Kingdom on a net premium basis, and within South Africa on the financial soundness valuation method (FSV) which is closer to a fair value framework.

Restating our insurance liabilities onto one basis for consolidation purposes for the period beginning on 1 January 2004 will be exceptionally costly and difficult. For contracts written some time ago and maintained on old legacy systems it is impracticable. It is very difficult to justify these additional costs given the fact that we would be required to change the measurement basis within the next couple of years when an Insurance IFRS is issued. This also does not appear to be consistent with the objectives of Phase I of the Insurance Project set out above.

We recommend that in the absence of an Insurance IFRS the impracticability option in IAS 27.21 is retained.

4 IAS 28, Accounting for Investments in Associates

4.1 ***Question 1 - do you agree that IAS 28 and IAS 31 should not apply to investments that would otherwise be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, when such measurement is well-established practice those industries?***

The application of IAS 39 and the current measurement proposals set out in the Insurance Draft Statement of Principles will mean that going forward many financial institutions, including ourselves, will be required to prepare consolidated financial statements based on a comprehensive fair value accounting model.

It is likely that a substantial element of our liabilities will be recorded at fair value with movements taken to the income statement. We believe that where assets are used for

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[1] European Insurance Accounts Directive - Article 6 paragraph 6

investment purposes, even if they are not monetary assets, it is appropriate for an entity to elect to measure the asset at fair value with movements also reflected in the income statement.

Within the insurance sector it is well-established for interests in associates and joint ventures held by the long term insurance find to be included within investments in the Balance Sheet, measured at current value with movements in value treated as unrealised investment gains and losses[2].

Therefore although we endorse the proposal that in certain circumstances investments in associates and joint ventures may be measured at fair value in accordance with IAS 39, we believe that this option should not be restricted to specific legal entities but should be available to any entity if the asset(s) is being used for investment purposes. The Standard would then be able to provide guidance and/or examples indicating when it is reasonable to conclude that the asset forms part of an investment portfolio. These arguments can also be applied to how properties held for investment purposes are accounted for.

5 lAS 40, Investment Properties

5.1 *Application of the fair value model to owner-occupied properties held within the long tern insurance fund*

We are aware the Board previously decided (IAS 40 B.34) that even though some financial institutions regard their owner-occupied property as an integral part of their investment portfolio and treat it in the same way as property leased to others it is inappropriate to use the fair value model for owner-occupied properties.

We would like to suggest that this conclusion is revisited in light of the proposed changes permitting a property interest held under an operating lease to be accounted for as an investment property. This is particularly pertinent given the application of IAS 39 to contracts that under local GAAP are accounted for as insurance contracts but under IAS will be treated as financial instruments because they principally transfer financial risk (see section 4)

If an insurer takes advantage of the proposed improvements to IAS 39 permitting such contracts to be measured at fair value with changes taken to the income statement, but owner-occupied properties are measured under the provisions of IAS 16 at amortised fair value with changes in fair value taken to equity an accounting asset / liability mismatch is artificially created. Depending upon the value of owner-occupied properties being used to back policyholder liabilities this could be significant and require expensive hedging strategies to be implemented.

We believe that it is appropriate, where owner-occupied properties, held within the long term insurance fund, being used to back policyholder liabilities are accounted for at fair value (either under the provisions of IAS 39 or the Insurance IFRS) it is more meaningful for such properties to be accounted for under the fair value model set out in IAS 40. If

[2] Association of British Insurers Statement of Recommended Practice Accounting for Insurance Business paragraph 222

the associated policyholder liabilities are accounted for at amortised cost it remains appropriate for changes in fair value to be reflected in equity