Swiss Re

International Accounting Standards Board
30 Cannon Street
GB - London EC4M 6XH

Fax +44 (0) 207 246 6411
CommentLetters@iasb.org.uk

Swiss Reinsurance Company
Mythenquai 50/60
P.O. Box
CH-8022 Zurich
Direct line +41 43 285 6113
Direct fax +41 43 285 4659
George_Quinn@SwissRe.com

16 September 2002

Comments to the Exposure Draft of Proposed Improvements to IAS

Dear Sir David

Swiss Re, as one of the world's leading reinsurers, supports the IASB on improving International Accounting Standards. Swiss Re Group's financial statements are published in accordance with Swiss GAAP FER, however, some of our subsidiaries use IAS as their reporting standards as do a number of our clients.

Swiss Re, operating through more than 70 offices in over 30 countries, is exposed to accounting regulations from many different countries and regulators. We support convergence of different accounting frameworks and the elimination of options in existing accounting standards.

We agree with the Board's conclusion on most of the proposed changes to existing IAS. We do have a number of specific comments which we listed in the attached appendix.

We would be happy to lend our support to any future discussions. We also would be pleased to discuss with you at your convenience any questions or issues that you may have concerning our letter. (Please contact Francesco Gatti +41 43 285 4447 or Martin Mueller +41 43 285 9275).

We appreciate the efforts of the IASB in putting together the exposure draft on improvements to International Accounting Standards and thank you for the opportunity to submit our comments.

Yours sincerely,

George Quinn
Chief Accounting Officer

Enclosure:
Comments to the Exposure Draft on proposed improvements to IAS

Comment to the Exposure Draft on Proposed Improvements to IAS

IAS 1

Question 1

We agree that the proposal regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard, to achieve a fair presentation, is reasonable.

Question 2

We agree that the effect of transactions should be presented on the basis of their nature rather than on their frequency. We would welcome additional guidance regarding the treatment and classification of items previously classified as 'extraordinary items' in the IASB project on performance reporting.

Questions 3 – 4

We are not fully persuaded by the arguments in favour of the classification of liabilities as current liabilities when an agreement to refinance, or to reschedule payments, on a long term basis has been completed between the Balance Sheet date and the issue of the financial statement. Although we agree that this is theoretically correct, the end result will cause confusion. The current treatment is more pragmatic. This could be supplemented by disclosure.

Question 5

We agree with the proposal but believe that more guidance will be required to achieve consistency in practice. We suggest that the Board supplement the guidance with examples.

Question 6

Again we agree with the principle but we are concerned that these disclosures may be unauditable. Other jurisdictions require these disclosures in other reports where they are not subject to audit and benefit from special legal status.

IAS 8

Question 1

We agree with the conclusion to remove the allowed alternative treatment for changes in accounting policies and corrections of fundamental errors.

Question 2

We agree with the elimination proposed in the Draft and see no reason to keep the distinction between fundamental errors and other material errors.

IAS 16

Question 1

We agree that the exchanges of items of property, plant and equipment should be measured at fair value of the asset given up, or at fair value of assets received if more evident, or if the fair value cannot be determined reliably, at the carrying amount of the asset given up.

Question 2

We agree with the Board to amend IAS 38, applying to the exchanges of intangible assets, the same principle proposed for property, plant and equipment, i.e. the measurement at fair value, unless it cannot be determined reliably.

Question 3

We believe that the measurement of an asset held for disposal should consider its fair value. We understand that this represents a fundamental change in the standard, and is not part of the scope of this exposure draft.

IAS 17

Question 1

We agree with the principle to split a lease of land and buildings into two elements, a lease of land and a lease of buildings, whenever the two elements can be measured reliably, and unless the land element is a small portion of the entire property.

Question 2

We agree with the principle that a lessor should capitalise and allocate over the lease term initial direct costs in negotiating a lease, if they are incremental and directly attributable to the lease transaction. This treatment is in line with those prescribed in many jurisdictions, and improves the existing paragraph 33 of IAS 17, which allows the lessor to recognise at the inception of the lease some of the future income for the same amount of the initial direct costs.

IAS 21

Question 1

We agree with the definition of the functional currency as the currency of the primary economic environment in which the entity operates; with reference to the guidance on the definition of functional currency, paragraphs 7 – 12 provide a clear and detailed description.

Question 2

We believe that a reporting entity should be permitted to choose any currency in which to present its financial statements.

Question 3

We agree that the method used to translate financial statements into the presentation currency should be the same as for translating a foreign operation to include it in the reporting entity's financial statements, (translating balance sheet items at the closing rate and income and expense items at average rates), except for the special treatment of hyperinflationary economies.

Question 4

The alternative to capitalise exchange differences, which means recognising exchange losses as assets, should be excluded.

Question 5

We agree with the majority of the Board. We believe that goodwill and fair value adjustments to assets and liabilities arising from the acquisition of a foreign operation should be treated as assets and liabilities of the foreign operation, as part of the acquisition cost.

IAS 24

Question 1

We agree that a disclosure of management compensation, expense allowances and other similar items paid in the ordinary course of business should not be required, not only for reasons related to privacy, but because the reader of the financials would not benefit from such information, which often would not be comparable with the figures reported by other entities.

Question 2

We agree with the Board that the Standard should not require a duplication of the disclosure of related party transactions; if the information is available in the consolidated financial statements of the group to which the entity belongs, it does not need to be shown in the separate financial statements of a parent or of a wholly-owned subsidiary.

IAS 27

Question 1

We agree with the exemption from preparing consolidated financial statements for entities which meet the criteria listed in the proposed IAS 24, paragraph 8.

Question 2

The proposal to present minority interest in the consolidated balance sheet within equity, separately from the parent's shareholder equity is in our opinion correct. We also believe that the minority interest does not have the characteristics of an obligation, and therefore should not be included in the liabilities.

Question 3

We agree to remove the choice to account for investments in subsidiaries, associated and jointly controlled entities in the parent's separate financial statements using the equity method. We also agree that in the case where the above mentioned investments are accounted for in accordance with IAS 39 in the consolidated financial statements, the same accounting treatment in the investor's separate financial statement should be used.

IAS 28

Question 1

We agree with the Board to exempt venture capital organisations, mutual funds, unit trusts and similar entities from the application of IAS 28 and IAS 31. We are convinced that the measurement at fair value according to IAS 39 (and IAS 28), rather than equity accounting or proportionate consolidation, produces more relevant information for the user, and prevents the risk of changes in the accounting treatment following eventual changes in the control of the investment. The measurement at fair value according to IAS 39 does not apply in case the investment qualifies as a subsidiary; in this case the consolidation of the investment is needed according to IAS 27.

Question 2

We also believe that if an associate incurs losses that exceed the value of the investment held by the parent, and the investor has other interests in the associate, e.g. loans granted, the value of such interest should also be reduced to nil where these items are not secured and settlement is neither planned nor likely to occur in the foreseeable future. Although in practice we would expect this issue to be addressed by existing guidance on the impairment of assets.

IAS 33

Question 1

We support the inclusion as potential dilutive shares of contracts which may be settled either in ordinary shares or in cash, based on a rebuttable presumption that the contracts will be settled in shares. The dilutive effect should take in consideration all factors and available historical information, and not simply presume that the issuer opts for the shares.

Question 2

We agree with the approach to the year-to-date calculation of diluted earnings per share illustrated in Appendix B, examples 7 and 12.

IAS 40

Question 1

We agree with the proposed change to IAS 40's definition of an investment property, which permits an operating lease to qualify as an investment property for a lessee who uses the fair value model in IAS 40.

Question 2

We agree that in the event that an operating lease qualifies as investment property, the proper way to account for it is to treat it as if it were a finance lease, i.e. recognising the full amount of the asset and not only an amount which can vary on the pattern of the lease payments.

Question 3

We agree with the proposal to maintain the choice.