Münchener Rückversicherungs-Gesellschaft

Aktiengesellschaft in München

Letters: D-80791 München
Fax: (089) 399056
Phone: (089) 3891-0
Telex: 5215233-0 mr d
http://www.munichre.com
E-mail: info@munichre.com
Parcels: D-80802 München

Königinstr. 107

IASB
1st Floor, 30 Cannon street
London EC4M 6XH
United Kingdom

Dale

16th Sep. 2002

Central Division: Accounting
Queries to Ms. Pfaller

Phone: (089) 3891-4200
Fax: (089) 3891 -74200

E-mail:
ipfaller@munichre.com

Dear Sirs,

We strongly support the IASB's Improvement Project, as we believe that this is the right approach to enhancing the quality and consistency of financial reporting.

One of the key factors in achieving convergence is the removal of options by drawing on best practice around the world.

However, the stipulated time schedule - comment deadline 16th September, proposed effective date for financial statements covering periods beginning on or after 1st January 2003— is quite challenging. Even though we accept the need to enhance the existing set of standards as rapidly as possible, the IASB should generally be aware of the "cost-benefit" approach. Fast developments compel the industry to invest immense resources in systems just because of short preparation periods. We would like comment on the following items, which seem to us to be the most interesting ones.

IAS8

We support the proposals - which constitute an extensive change - as they really improve the standard in terms of practicability (also by way of integrating SIC 18) and enhance consistency and inter-period comparability.

<u>Comment on 1</u>

We agree that the alternative treatment should be eliminated for voluntary changes in accounting policies and correction of errors.

However, to enhance consistency, we see the need to make clear that voluntary changes in accounting policies should be quite exceptional and rare. Therefore, the standard should emphasize the need for there to be very good reasons.

We also agree that the alternative treatment should be eliminated for corrections of errors.

Comment on 2

We agree, as any distinction would be impossible to operate and all errors are accounted for in the same way under the improved standard. Otherwise, a lot of semantic discussion would be required.

Further comments:

Paragraph 19 of the modified standard requires disclosure of information about the effects of a future change of accounting policy as a result of publication of a new standard yet to be implemented. We see this requirement as quite impractical, as it is very hard to assess all impacts under a new scenario if the new requirements are not yet implemented in the existing systems; reliability would suffer purely as a result of short time schedules. This approach forces entities to disclose estimates that do not have a solid basis and which therefore cannot be very helpful to market participants.

Paragraph 24 to 30 are of special interest to (re)insurance enterprises, as uncertainty and estimates are the essence of insurance. We do see a discrepancy between the DSOP and the proposal in IAS 8 in dealing with changes in accounting estimates. We hope that the coming discussion on the insurance contracts standard will bring more clarity regarding the amended IAS 8.

IAS 21

Comment on 1

Generally we agree with this definition and its elaboration in paragraphs 7-12. The definition may be appropriate for most entities, as they are able to determine their "primary" economic environment in which they primarily generate and expend cash.

The guidance in paragraph 7-12 assumes that the entity can identify *one* currency which "most faithfully represents the economic effects of the underlying transactions, events and circumstances". In international reinsurance business, however, the contractual currency is usually determined by the country in which the insured risk is situated. For global players, this can be anywhere in the world: where the ceding or assuming company is located is immaterial. Consequently, the currency of the premiums and claims paid, and the corresponding currency of the investments and provisions as the main balance sheet items, can hardly be influenced by the reinsurance company. A multinational reinsurance company deals with about two hundred currencies, of which at least twenty should be denominated as a functional currencies.

Therefore neither the definition of the functional currency nor the definition of foreign currencies is suitable for multinational reinsurance business. This becomes evident if we look at the initial recognition of “foreign currency transactions”: because global reinsurance companies regard all currencies as functional currencies, all transactions are recognized in the original - the transaction - currency.

Our concern is that the proposed improvements do not take this form of bookkeeping into consideration. We would appreciate a statement to the effect that it is not only groups which may present a number of functional currencies but that single entities may also designate more than one functional currency.

At the same time this is the reason why we support the Board in wishing to replace the term “reporting currency” with the two separate notions, emphasizing the fact that “foreign currency translation” has two stages: measurement and presentation. Whereas measurement is possible while using the transaction currency without translation into one currency, we cannot avoid designating one currency for expressing the results and financial position in a common currency.

Provided designating one currency as the functional currency is possible but not explicit, we support the Board’s approach that, in the case of mixed indicators, especially in the case of inconsistencies between the “economic environment concept” and the “independence from parent concept”, this decision has to be based upon the management’s judgement. Such inconsistencies often appear in the case of traditional branches which are funded by the parent in the local currency of the branch and where all the transactions are carried out in the local environment.

Comment on 2

We agree. As a global player with multinational business and clients, competitors and shareholders all over the world, we strongly support this approach. As already stated, our business comprises a wide range of functional currencies. Owing to a number of factors, we are neither able nor willing to give preference to one presentation currency over another. Apart from this, we see no reason or advantage for a limitation in the number or sort of presentation currencies, provided that the currencies are valid and used, and the disclosure requirements are met. The existing trend towards globalization will also require such a liberal approach.

Comment on 3

Yes, we agree. We refer to our arguments under Question 1 and 2 which lead to the second method, as indicated in A16. and A17. Conceptually this method acknowledges the fact that in each entity and between some entities there can be different measurement currencies. Presentation means that in every case you are simply translating from that measurement currency into a different presentation currency. Whether the purpose of such translation is consolidation or presentation makes no difference from the point of view of assessing the performance of a single entity or a single transaction.

Comment on 4

We agree with every aspect as set out in paragraph A20. According to our understanding, maintaining this permitted alternative is nowadays neither necessary nor consistent with the project's objectives of eliminating alternatives, redundancies and conflicts.

Comment on 5

Yes, we agree. As stated by the Board, there should be no doubt that fair value adjustments are part of the acquired assets and liabilities, so that translation at the closing rate is inevitable in this improvement project. Regarding goodwill, we maintain the understanding of the majority that is set out in paragraph A26, and would like to point out that the level to which goodwil is kept down in practice should have no impact on the choice of the closing rate. Although we can well imagine that in some cases goodwill is not exposed to foreign currency risks, we would prefer the proposed approach as the only one feasible.

IAS 27

Comment on *1*

Yes. We agree, as the reasons given in the basis for conclusion reflect the economic reality and the intent in the framework not to overburden entities without economic necessity. Reported information should always be useful and relevant for potential interested decision-makers.

Comment on 2

Yes. We agree for the reasons given in the basis for conclusion.

Comment on 3

We believe that the equity method - under certain circumstances - best reflects the economic substance of certain investments in the separate accounts and leads to the most relevant information. Furthermore, investments accounted for under the equity method in the consolidated accounts should also be accounted for in the same way in the separate accounts of the investor (if directly held) so as not to arrive at two dif ferent ways of reporting the same investment. Therefore we advocate retaining the equity method as the third alternative.

Besides the above, we support the approach of the proposal that if an investment is accounted for in accordance with IAS 39 in the consolidated accounts, it should also be accounted for in the same way in the separate accounts; this approach enhances consistency.

Further comments:

Paragraph 13 proposes that investments in subsidiaries held exclusively with a view to subsequent disposal within twelve months of acquisition be accounted for at fair value, with changes in fair value included in profit or loss of the period of the change. This handling is the same as for investments held for trading. However, investments held for trading are supposed to make short-term profit, which is not necessarily the case with the intent to sell a subsidiary within twelve months. As the proposal will increase earnings volatility of the quarterly reporting unnecessarily, we advocate the alternative of reporting the changes in fair value in equity.

IAS 28

Comment on I

We agree that IAS 28 and IAS 31 (Financial reporting of interest in joint ventures) should not apply to investments that otherwise would be associates or joint ventures held by venture capital organizations, 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 in these industries.

Comment on 2

We do not agree with the proposed requirement that the amount to be reduced to nil when an associate incurs losses should include not only investments in the equity of the associate but also other interests such as long-term receivables (paragraph 22). Our disagreement is based on the fact that recoverability of “other interest’ as receivables must be considered individually (for example in case of existing collaterals). The “overall approach” suggested could lead to incorrect writedowns.

Further comments:

We do not agree with the proposed requirement that when financial statements of an associate used in applying the equity method are prepared at a reporting date that is different from that of an investor, the difference shall not be more than three months (paragraph 18). Since the investors have merely a significant influence on their associates and no control, it will not be possible for investors to enforce an associate to change its reporting date or to demand an interim report. The consequence for companies with associates could then lead to lack of IAS conformity concerning this issue.

We also recommend deleting those disclosures proposed in paragraph 27 which contain information about facts that are already public (e.g. annual reports of the associates), since otherwise the disclosures would be unnecessarily expanded and their complexity increased, without there being any addition to the information publicly available.

Yours faithfully,

Munchener Ruckversicherungs-Gesellschaft

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i.V. Homann

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