

3 September, 2003

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

Dear David

ED 5 Insurance Contracts

Currently, in New Zealand, FRS-34 *Life Insurance Business* and FRS-35 *Financial Reporting of Insurance Activities* require insurers' assets to be measured at net market value (*the price for which an asset might reasonably be expected to be sold at a particular date in an orderly market, less the costs of disposal that could reasonably be anticipated at that date*). FRS-34 and FRS-35 are almost identical to the equivalent Australian standards, and you may recall that FRS-34 was a result of a joint project with the AASB.

ED 5 *Insurance Contracts* proposes that assets backing investment contracts for insurers be measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. IAS 39 allows options for measuring these assets. Allowing insurers the option to value their assets at values other than fair values is, in our view, a step backwards for our insurers. This issue was raised with you by the Australian Accounting Standards Board at its August 2003 meeting. We support Australia's proposal to eliminate the options in IAS 39 and to require assets backing insurance contracts, investment contracts written by life insurers and financial liabilities arising from investment contracts issued by life insurers to be designated as held for trading and measured at fair value. We propose to adopt Australia's approach in this regard.

We understand that you indicated that an exemption to the IAS 39 requirement could be considered for insurers who already measure at fair value. Although this amounts to the elimination of an option in an international financial reporting standard, we regard this as an important matter for the IASB to consider and wish to state our support for an exemption in these particular circumstances.

Yours sincerely

Tony van Zijl
Chair, Financial Reporting Standards Board

cc Warren McGregor, IASB liaison for Australia/New Zealand
Peter Clark, Senior Project Manager ED 5