



20<sup>th</sup> February 2002

International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Dear Sir/Madam

**Exposure Draft of a Proposed  
Preface to International Financial Reporting standards  
(International Accounting Standards Board)**

Thank you for inviting comments on the above exposure draft.

The International Underwriting Association (IUA) represents companies that work in and through the international insurance and reinsurance market centred on London. For further information about our organisation and its membership please see the attached briefing note.

The issues looked at in the exposure draft have significant implications for the members of the International Underwriting Association (IUA). We are interested in the work of the IASB and EU Developments. Consequently the paper is of great interest to us.

**Matters Addressed in the Proposed Preface**

**Scope and Authority**

*Question 1*

*The Board states in paragraph 9 of the proposed Preface that IFRS are designed to apply to the general purpose financial statements of all profit orientated entities as defined. The Board also says that although IFRS are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate. It notes that the Public Sector committee of the International Federation of Accountants (PSC) is preparing accounting standards for governments and other public sector entities, other than government business enterprises, based on IFRS.*

**Is the Boards proposed scope clearly defined and appropriate?**

In principle, the IUA agree with the proposed scope. We suggest that in formulating their aims the IASB give full consideration to commercial interest alongside public interest. We also strongly agree with the notion that not-for-profit activities in the private sector, public sector or government should consider adopting international

accounting standards. This will provide a level playing field and transparency in terms of accounting, although we do accept that the implementation date may differ.

#### Question 2

*The standards issued by the IASC include paragraphs in bold italic type and paragraphs in plain type. The Board is concerned that some constituents may have interpreted the bold italic paragraphs as having more authority, although IASC commentary has suggested otherwise. Paragraph 14 of this proposed Preface states that paragraphs in bold italic type and plain type have equal authority and sets out the Board's intention to discontinue the use of different type styles. The Board intends to provide, in IFRS, robust and useful guidance to illustrate the basic principles in each Standard, including a detailed Basis for Conclusions.*

#### **Do you agree with these proposals? Why or why not?**

The IUA agree with the new proposals mentioned in question 2. The Board's intention to discontinue the use of different type styles is welcomed, as this reduces the possibility of misinterpretation and ensures all organisations understand accounting requirements. However, we feel that the guidance notes should identify which principles, if any, have more authority. In addition the IUA recommend that consideration should be given where worked examples may explain issues in simpler terms.

#### **Due Process**

##### Question 3

*In paragraphs 19 and 20 of this proposed Preface, the Board sets out the due process normally expected to be followed in issuing Standards and Interpretations.*

#### **Are the Board's proposals appropriate? Are any proposed steps unnecessary? Are there additional steps that should be incorporated?**

It would seem an impossible task to consider and include all accounting requirements used in various geographical areas. We would urge the FASB to consider informal meetings with various national accounting standard setters.

Whilst the proposals and steps appear logical, the IUA are concerned that multinationals may experience severe problems converting from local accounting standards to an international standard, especially where the business may be operating under various regulatory regimes. Whilst we are unable to identify any specific geographical area which may cause problems, we would urge the IASB to investigate prior to the introduction of standards.

#### **General**

##### Question 4

#### **Are there any other matters that should be addressed in the Preface to IFRS?**



The IUA are concerned at media suggestions that there will be a two-tier approach to accounting, IAS and US GAAP. We feel that this is not in the interest of global entities, since they will still be required to produce a separate set of reports for the US.

Additional concern is that the IASB may be a 'one type fits all' approach. There is a danger that various financial services businesses may be compromised by a lack of differentiation, which will ultimately result in a lack of transparency. The IUA welcome the opportunity to discuss these issues with the IASB.

Yours faithfully

Sheree Whatley  
Chairman, Supervision, Accounting, Taxation and Solvency sub-Committee



## **INTERNATIONAL UNDERWRITING ASSOCIATION OF LONDON**

The International Underwriting Association of London (IUA) is the world's largest representative organisation for international and wholesale insurance and reinsurance companies. It came into existence on 31 December 1998, following the merger of the London International Insurance and Reinsurance Market Association (LIRMA) and the Institute of London Underwriters (ILU).

The ILU's history in the marine, aviation and transport insurance markets dates back to 1884. LIRMA was formed in 1991 from the merger of previous insurance associations formed in the 1960's and 1970's to support non-marine insurance business and reinsurance.

The IUA has 70 Ordinary members and 34 run-off members. They are mainly based in London, or in the rest of the European Economic Area (EEA) and regulated accordingly. There are also 47 associate members from over 20 countries. IUA members wrote around £8.4 billion premium in 2000. Of this gross treaty reinsurance amounted to an estimated £5.4 billion - two thirds of such business underwritten in the international wholesale market centred on London (the balance being written at Lloyd's). Revenue from marine, aviation and transport premiums was £1.1 billion accounting for over 25% of that part of the London Market. A little over £1.5 billion general commercial insurance business was also underwritten in the same year.

Several of the IUA's larger members now provide the major part of the corporate capital of Lloyd's.

The IUA is both a trade association, representing its member's interests internationally, and a market association supporting the business environment in London.

The IUA as a trade association represents its members' interests to governments, regulators and intergovernmental institutions worldwide. The IUA regularly attends meetings of the International Association of Insurance Supervisors and the quarterly meetings of the US National Association of Insurance Commissioners, also lobbying at the federal level as necessary. In Europe, the IUA liaises with the Commission, the federation of insurance associations (CEA) and other relevant bodies, and promotes the completion of the single market. It introduced the euro as a settlement currency into the London company market in October 1998 through its then wholly owned subsidiary, the London Processing Centre, and it participates in the Bank of England's preparations for the National Changeover. It also supports the work of International Financial Services London (formerly British Invisibles) LOTIS (Liberalisation of Trade in Services) Committee and the US / EU Financial Leaders Group, which itself supports the work of US / EU trade negotiators in the context of WTO / GATS. It has recently made a submission to academics working for the Financial Stability Forum (G7 Finance Ministers) on a study of global systemic risk in reinsurance.

The IUA is also monitoring and participating in current discussions on insurance law reform initiated variously by DTI, the legal profession and academics, in the UK and across Europe.

The IUA also organises conferences and seminars for its members. Regular market briefings cover a wide range of technical, commercial or educational topics. Its last international seminar "Into the melting pot", examined the convergence between reinsurance and the capital markets and took place at Gleneagles, Scotland in May 2001.

The IUA sponsors research and publishes the results. Of its publications, the reinsurance statistics, marine loss statistics and earthquake hazard atlases are produced regularly. Other projects are commissioned in response to perceived need, such as the UK Bodily Injury Awards Study, which has prompted the adoption of a new rehabilitation code by the UK industry and has also been supported by the ABI. Others include a summary of European Premium Taxes. Current projects include research into digital risk, and insurance and reinsurance derivatives.



The market association function embraces technical support for underwriting practice, the provision of collective back office processing services and an ambitious programme, with Lloyd's, for reform of procedures within the London Market.

The IUA's various committees encourage good practices in technical support, underwriting and training. Clause committees continue to work on the standardisation of clauses across the London market, many of which are adopted internationally.

In 1999 the IUA and Lloyd's set up the IUA/Lloyd's Forum to launch reform projects in the London Market. This has since joined with the London Market Brokers' Committee to form the Market Reform Group. The LMP 2001 programme seeks to simplify and speed up London Market placing and claims agreement procedures, harnessing new technology, to improve customer satisfaction, and to make the market a more attractive place to do business. A parallel project is working on improving the London Market's accounting and settlement procedures.

In May 2001 the IUA and Lloyd's announced that they would be merging the London Processing Centre (LPC) and the Lloyd's Policy Signing Office (LPSO), to form Ins-sure Services, which is expected to process £20 bn premium and claims pa. A third joint venture partner Xchanging BV is providing additional expertise and capital. (IUA owns 25% of Ins-sure Services.)

A company limited by guarantee, the IUA is governed by a Board of up to 20: the Chief Executive and representatives, elected annually by rotation by full members. Those so elected tend to be Chairmen and/or Chief Executives of insurance and reinsurance companies or otherwise senior market figures. The IUA's full members themselves can be classified as: the UK authorised subsidiaries or branches of the major US and European insurers and reinsurers (e.g. AIG, GE Frankona, Generali, Munich Re, AXA, SCOR, AGF, Swiss Re); EEA licensed insurers and EEA reinsurers (some, but not all, having London branches); and foreign-owned smaller reinsurance companies based in London.

*January 2002*