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15 October 2003

Dear Peter,

Here are a few comments on ED 5 for Insurance Contracts. Please note that these are my personal views and do not necessarily reflect the opinions of my employer.

Para 11 Loss recognition

It states that the insurer shall recognise the entire deficiency of the liability, yet the standard allows discounting of reserves. This seems contradictory.

Para 18 (a) Accounting by a cedent for reinsurance

This will remove a large area of financial reinsurance. How is this possible when some companies will not be preparing IAS accounts?

Para 20 (b) Insurance contracts acquired in a business combination

Is this intended to apply to non-life companies as well as life? You may end up with an intangible asset which cannot be measured.

Para 30 Fair value disclosure

How can companies comply with this when fair value has not been defined?

Para 34 Disclosure

If possible companies should be encouraged to show the loss development tables for more than 5 years. This disclosure should apply to non-life reserves only. The disclosure could be distorted if companies change accounting policy under AS.

Para B17 (g) Examples of insurance contracts

Should letters of credit be included here?

Para B22 Significant insurance risk

In the footnote it says that contracts entered into simultaneously with a single counter party form a single contract. I do not agree with this and think it should be on a contract by contract basis.

Para C10 Impairment of Assets

(h) Reinsurance receivables are excluded but I think they should be subject to the impairment test.

Para BC6 (c) Definition of fair value

Para (i) requires a proper explanation about discounting and the time value of money.

Para BC6 (e)
What does incurred mean? Does this imply matching or on a paid basis?

Para BC 66
I would prefer that assets and liabilities were not netted off.

Para BC 73
Should salvage or subrogation be netted of claims reserves?

Para BC 82
It would be a problem in the UK if embedded value was excluded in phase 1.

Para BC 109 Assets held to back insurance contracts
(c) I do not think changes in market value are irrelevant as the asset may be sold and may also be under water at maturity. I would prefer all assets to be marked to market as companies tend to manipulate the allocation of assets between the categories.

Para BC 110
The balance sheet is more useful to investors than the p&l. I do regards volatility as representing reality, however, to get a more accurate representation the liabilities would have to be adjusted as well as the assets.

Other issues
I remain concerned about the debate about marking to market and whether this should be on a entity specific basis or based on market prices. I would strongly favour the entity specific approach. I do not believe that it is possible to assess a market price, nor do I think that the prices paid for new business are directly related to the value of the liability. A liability, at least as far as non-life insurance is concerned, is based on the contractual obligations to pay claims. This is not directly related to the price for new business, which also may not be directly comparable as far as terms and conditions are concerned. I feel that the use of market pricing as a valuation measure for liabilities would be extremely misleading for non-life insurance and in no way helpful to investors and analysts.

I am also interested in where some of the disclosures would be made. My preference is for all the main disclosures to be included in the audited financial statements.

I hope these comments are helpful.

Yours Sincerely

Susan Holiday