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31 October 2003

Peter Clark

Senior Project Manager

International Accounting Standards Board

30 Cannon Street, London EC4M 6XH, United Kingdom

Re: comments on draft IFRS Insurance Contracts

Dear Mr. Clark,

The project on insurance accounting, which is developing by the IASB, has a wide support in the Russian Federation amongst insurance companies, accounting firms and officials of a regulatory bodies. I found a great interest of the Exposure draft 5 and support its major issues when discussed it with my colleagues from other Russian accounting firms and major Russian insurance companies. Personally I think that this document should be adopted as IFRS as soon as possible in order to eliminate the existing gap in IFRS.

In course of those discussions two critical issues have been raised, and I would like to stress your attention on them.

First one relates to those types of insurance contracts that include a provision that a policyholder pays a premium in several installments whereas an insurer has a liability of full sum insured. If insured event happens within such type of policy duration, an insurer would offset its liability with a part of a premium not paid by a policyholder. Those types of insurance contracts are widely signed by a Russian insurance companies regardless the fact that our supervisory board wants to stop or at least restrict this practice**. The question relates to paragraphs 5 and 6 (Embedded derivatives) of the draft IFRS**. It appears that such provision of an insurance contract could be treated as embedded derivative that must be separated from its host contract. If so the implementation of this IFRS, in my opinion, will be embarrassed. From my point of view this practice should be treated as an exception to the requirement in IAS 39 similar to the case of a policyholder's option to surrender an insurance contract for a fixed amount.

Second issue raised **relates to paragraphs 11 and 12 (Loss recognition) of the draft IFRS**. We are very much concerned about too common wordings of these paragraphs that could lead, in our opinion, to the existing of incomparable presentation of insurance liabilities in financial statements. We would propose to define such an important definition as "future cash flows under an insurance contract" in IFRS and require insurers to carry out this loss recognition test rather than use an approach of paragraph 12. This approach from our point of view contains too high level of judgment, but not the measurement, of such an important liability for an insurance company as insurance liability is. As for definition of "future cash flows under an insurance contract", in our opinion, it is not enough clear whether there are outward cash flows or there are inward cash flows. We think this term should be clarified in the IFRS discussed.

Sincerely yours,

Sergey Kharitonov

Managing partner