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Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom
CommentLetters@iasb.org

Swiss Reinsurance Company
Mythenquai 50/60
P.O. Box
CH-8022 Zurich
Direct line +41 43 285 6116
Direct fax +41 43 282 6116
Mark_Swallow@SwissRe.com

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**CL 57**

**Comments to Exposure Draft 7 Financial Instruments: Disclosures**

Dear Ms Pryde

Swiss Re, as one of the world's leading reinsurers, supports the IASB in improving International Financial Reporting Standards (IFRSs). Swiss Re Group's financial statements are published in accordance with Swiss GAAP.

A number of our subsidiaries and of our clients use IFRSs as their reporting base. Swiss Re operates through more than 70 offices in over 30 countries and is exposed to different accounting regulations issued by many national standard setters and regulatory authorities.

We support the fact that all disclosures relating to financial instruments are now located in one document. We have the following comments on the proposals.

**Credit risk**

We do not think that providing disclosure of the maximum exposure to credit loss for most financial instruments provides useful information to users. The disclosure does not give information on the nature of the credit risk. Disclosure on credit quality should be sufficient to help users understand the credit risk present in financial instruments. We recommend that this disclosure is limited to guarantees, which do not generally appear on the balance sheet.

We are not clear if paragraph IG 62 refers to insurance liabilities or to financial instruments held by insurers. If it refers to insurance liabilities, we do not believe that maximum credit exposure is appropriate for credit reinsurance and surety business which accounts for a significant portion of Swiss Re's exposure to credit risk. A more appropriate disclosure would be a statistically based risk measure such as Value-at-Risk or expected shortfall. These

measures would allow the capture of the credit risk on a portfolio with various types of credit sensitive positions.
We are also concerned about the use of maximum exposures for credit management and trading instruments (for example credit derivatives and credit default swaps). We think that disclosing maximum exposures can be misleading. The measure does not take into account hedging relationships or that different instruments will often reduce rather than increase the credit risk of a portfolio. We believe that credit exposure for such instruments should be presented net of amounts offset pursuant to rights of set-off and master netting arrangements with counterparties.

**Market risk**

Paragraph 43 requires an entity to disclose a sensitivity analysis for each type of market risk showing the effect that reasonably possible changes in the relevant risk variable would have on the income statement or equity.

We are concerned that the use of sensitivity analysis for interest rate changes for financial instruments will exacerbate the accounting mismatch for insurance companies. The sensitivity on insurance liabilities would not be taken into account, whereas sensitivity on related assets would be shown as affecting the income statement or equity. This emphasises the accounting mismatch which currently exists for matched insurance liabilities.

A meaningful interest rate risk disclosure must include the interest rate risk inherent in assets and liabilities. Both sensitivities and statistically based measures such as Value-at-Risk or expected shortfall would achieve this objective. However, we are concerned about developing quantative disclosures for risks managed by insurers before phase II of the insurance project and the Solvency II project are completed and adopted.

We understand that the currency risk scope excludes the functional currencies of all companies in a group and of individual companies. We support this approach as we do not think that translation of functional currencies should impact sensitivity analysis.

**Insurance risk (amendments to IFRS 4)**

We do not support the disclosure of the amounts of risk exposure by concentration category in paragraph 39 (iii). Risk exposures are not measured and expressed in standard, defined ways. For example, risk exposure could be expressed as the estimated maximum exposure to a particular risk, but this has the same weaknesses which we described above for credit risk. Risks are managed on a portfolio basis and the individual risk exposure information does not give information on the position of a diversified insurer as a whole. We also believe that detailed risk information is a regulatory issue rather than a financial reporting issue. Please see our comment below on capital and internal capital measures.

**Capital disclosure**

We are not clear about the scope of the capital disclosures for insurers because the scope of ED 7 excludes insurance liabilities, and we did not see any change to IFRS 4 to scope insurance liabilities (or companies) into the capital disclosure. We comment below on the basis that insurance companies would be scoped in to the capital disclosures.

We do not support the requirement that an entity disclose information about all externally imposed capital requirements in the financial statements. Insurers have external supervisory capital requirements imposed in the jurisdictions in which they operate. The requirements are complex and varied. We believe that regulatory capital requirements serve the regulatory authorities, and it is as part of the regulatory relationship that compliance should be addressed.

We do believe that internal capital measures should be based on the company's view of capital. We think that it is not the right time to introduce specific financial reporting disclosures for capital because Solvency II is not yet complete. We recommend that there is a general requirement for insurers to provide relevant information about their capital position, but that companies should determine the scope and content of this disclosure. Capital information is also closely related to an insurer's competitive position, and capital targets reflect insurer's strategic positioning.

**Disclosure of risk**

Risk information is different in nature to financial statement disclosure and includes significant forward-looking information. We do not think that it belongs in the financial statements, but in the business report. This is consistent with practice in other areas, for example the United States, where risk disclosure is typically provided outside the financial statements.

We appreciate the IASB's efforts in preparing the exposure draft and thank you for the opportunity to comment on your proposals. Please contact me if you have any questions to our comments.

Yours sincerely

Mark Swallow
Chief Accounting Officer
Swiss Reinsurance Company