

15 June 2004

Ms Sandra Thompson
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Ms Thompson

PROPOSED AMENDMENTS TO IAS 39 – THE FAIR VALUE OPTION

The UK actuarial profession has a number of concerns regarding the proposed amendment to IAS 39 which restricts the use of the fair value option. This is not surprising given the profession's support for fair value accounting generally.

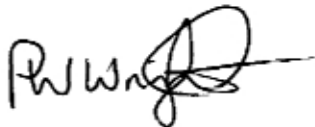
Our principal concerns are:

- Some insurance companies use loans and receivables (such as commercial mortgages) to back insurance liabilities measured using a market-related discount rate (for example, life-contingent annuities). It is unclear why these assets should not be automatically eligible for fair value treatment and it would help if paragraph 9(b)(iii) could include insurance liabilities valued at an "unlocked" rate of interest along with financial liabilities measured at fair value.
- Whilst a restriction should apply to the fair value option where fair value cannot be "reliably measured" as currently defined, we do not accept that a stricter "verifiable" test should be applied. We would observe that the fair value of many insurance liabilities might fail the verifiable test as described in paragraph 48B and hence this new requirement could set an unfortunate precedent.

We also have some minor comments. We do agree that the fair value of liability option should not be permitted so as to introduce a mismatch between the liabilities and assets held to back them. It does, however, seem unlikely to us that a preparer would wish to do this in practice. Finally, whilst the newly inserted comments about prudential supervision do not cause problems given the explanation provided in BC11 (b), they do appear out of place in the standard itself.

We confirm that these comments may be placed on the public record.

Yours faithfully

A handwritten signature in black ink, appearing to read 'P W Wright', with a long horizontal flourish extending to the right.

P W Wright
Chairman
Accounting Liaison Group