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International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UK
Attention: Peter Clark, Senior Project Manager

24/10/2003

ED 5 - INSURANCE CONTRACTS

Dear Mr. Clark,

We welcome very much the opportunity to comment on the above-mentioned draft.

Syngenta is an industrial group of companies which makes or may make use of captive insurance and reinsurance entities in its operations. Therefore, we would not claim to have any deep expertise or practical experience in the area of insurance accounting which would enable us to make a worthwhile contribution to the technical discussion on ED5. We therefore confine our comments to a few specific areas

ED5 does not mention the question of consolidation. We believe that this is a gap which could prove problematical for industrial companies which have captive insurance subsidiaries and ask you to devote some attention to it. As we see it:

- Inter-company insurance contracts and their financial effects should be eliminated in line with IAS 27. The provision retained by the insuring company to cover the liabilities involved, usually supported by an actuarial assessment, is retained in the consolidated financial statements. The eliminated insurance contracts fall outside the scope of the proposed IFRS.
- Also, in cases where one subsidiary acts as an (internal) insurance company for another and passes on some or all of the risks to a third party through a reinsurance contract, the elimination of the inter-company insurance contracts converts the contract with the third party into an insurance (rather than reinsurance) contract from a consolidated economic viewpoint. Considering it as such would also take it outside the scope of the proposed IFRS and thus avoid non-insurer preparers having to comply with burdensome disclosure requirements which actually target a different industry."
- There may, however, be situations where an operating subsidiary holds an insurance policy written by a third-party insurer which then passes back the risk to the captive insurance subsidiary, in whole or in part, by way of a reinsurance contract. This may be done where the group wishes to self-insure and where local insurance regulations etc. necessitate such a back-to-back procedure. In this case we assume that the normal netting constraints in IAS 1 apply, so that ED 5 would apply to the group by virtue of the reinsurance contract.

We support the principle that you have adopted in this and other standards that scoping should be based on type of transaction, not on type of industry. However, this does mean that, where a relatively small amount of a given transaction-type occurs in a group or the group enters into such arrangements as described under the last bullet point above, that group has potentially to fulfil many cumbersome, costly requirements (especially, but not only, in disclosures) which are actually primarily directed towards a particular "industry". For example, an industrial group's captive insurance subsidiary might undertake a minor amount of third-party insurance business, as a small side-line to bring in some extra contribution, and thus put the group in the position of having to set up more complex systems to account for and collect data and to make disproportionate disclosures (e.g. in line with paragraphs 26-30 in ED5). In IAS this problem was overcome by the opening materiality clause in a standard, but in ED5 as in the IASB's other proposals to date this clause has been dropped, without any practical, pragmatic substitute. We strongly request the IASB to take up the question of describing sensible materiality considerations – for this and for other proposals – as a matter of urgency. Also, further consideration needs to be given to the fair presentation of the back-to-back procedure in terms of economic substance as opposed to legal form.

Procedurally, we have concerns about the proposal in ED 5 to require entities to disclose the fair values of their insurance liabilities and assets from 2006 onwards, without proposing how this disclosure is to be arrived at – in an area where market values are practically non-existent. We strongly believe that such a disclosure should not be mandatory. In our view, the necessary but postponed proposals and guidance on calculation, when published, should also be subject to due process in exactly the same way as ED 5. We thank you in advance for your attention to these comments.

Yours Sincerely,

James Halliwell
Planning, Reporting and Control Manager
Syngenta International AG