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Dear Peter

Re: ED5 Insurance Contracts

In response to your invitation to comment on the exposure draft in issue, I have set out below comments in relation to some of the questions set out by the IASB.

Question 2 – Definition of Insurance Contract

We do not believe the definition of an insurance contract is sufficiently robust, as it relies on an interpretation of “significant” and “trivial” in relation to the life element of complex products that combine an investment element and a life assurance element. The Exposure Draft implies, but does not explicitly state, that a life assurance product with minimal life cover should not be accounted for as an insurance contract. This means that contracts with policyholders that, in reality and in substance, include an insurance element will not be treated as insurance, which would appear to be counter-intuitive. We believe that reclassifying contracts that are currently compliant with insurance legislation, as non-insurance contracts, will not assist users of the accounts and will not be transparent.

Furthermore, any change will appear to increase the volatility of earnings for life assurers writing complex retail insurance products, when in fact there has been no real change to the business being written. There will also be implications with regard to the tax treatment of life assurance companies if their level of turnover was to be significantly changed (i.e. by reclassifying current business as investment business, and thereby removing some premiums from the I&E account).

In addition, we do not believe that there would be any purpose in applying this logic retrospectively since IAS 39, which would presumably identify the best possible alternative treatment, is only to be applied prospectively. We would therefore have to use a third approach to account for these contracts before the introduction of IAS 39, which would, in our opinion, confuse rather than assist a user of the accounts.

Question 10 – Disclosure of the Fair Value of Insurance assets and Insurance Liabilities

If phase II of the project on insurance contracts is delayed, we may be required to make a fair value disclosure which is not required for the primary financial statements. How fair values

should be arrived at is not discussed as part of phase I and so we believe that if phase II is delayed the requirement to present fair value information should also be delayed.

#### Question 11 – Other Disclosures

In response to your question “Should any of the proposals be amended or deleted?” we view the level of disclosure required by ED5 as too detailed, especially the requirements by the exposure draft to present a series of sensitivity analysis, detailed disclosure of the company’s risk profile and attitude to risk, and projected cash flow information in relation to insurance liabilities.

There is a danger of information overload for the users of the accounts. How much additional benefit will such a detailed level of disclosure add in reality? This especially applies to the users of our Group Financial Statements who are not insurance industry specialists. The insurance element of our business is relatively small in relation to our main business, traditionally the focus of our users is on the lending and deposit taking we carry out.

In addition, the ED does not make it clear whether sensitivity analysis will need to be performed relating to variables that have an immaterial effect on the financial statements in order to prove that the effects are immaterial. This would prove excessively burdensome for us, as it would require a large amount of work from our actuaries without any additional benefit to the users of the accounts. In order to avoid unnecessary costs it would be useful if the wording of the standard was clearer in areas where the IASB do not intend the level of analysis to be burdensome.

If you would like further clarification of the issues raised in this letter please do not hesitate to contact me.

Yours sincerely,

Lucy Walker