FEDERATION OF FINNISH INSURANCE COMPANIES
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COMMENTS ON EXPOSURE DRAFT ED 7 FINANCIAL INSTRUMENTS: DISCLOSURES

The Federation of Finnish Insurance Companies is a joint body for insurance companies operating in Finland, representing their interests to government authorities, other trade organizations and the public. The Federation works to promote sound insurance business, adequate risk management and effective loss prevention, setting out from the idea of insurance. The total number of members in the Federation is 49, which includes 9 foreign insurers. In 2003 the volume of premium income was €5.8 billion for life and non-life, direct and reinsurance business and €7.1 billion for statutory pension insurance.

The Federation of Finnish Insurance Companies supports the principle of aiming at achieving world-wide accounting standards. We appreciate the opportunity to comment on the Exposure draft ED 7 Financial Instruments: Disclosures. Consequently, we would like to comment on the following.

If the new standard IFRSx (ED 7) were partly adopted immediately, insurance companies could save a lot of work and expenses during Phase I (IFRS 4 Insurance Contracts). That is why we encourage changing ED 7 in a way that obstacles to the earlier and partial adoption of the standard are removed. However, we do not support the new requirements of ED 7 concerning the standards adopted in IFRS 4 for insurance contracts because they require measurements which are not meant for use until Phase II IFRSx Insurance Contracts standard is adopted.

Here are our comments on individual questions.

Question 4 – Capital disclosures

The draft IFRS proposes disclosure of information that enables users of an entity's financial statements to evaluate the nature and extent of its capital. We think the proposal is mainly appropriate. However, it seems to us that the requirement of paragraph 48 ("When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose the information separately.") may be difficult to implement and may still result in distorted information. Externally imposed capital requirements may be based on valuation of assets and liabilities which are not part of IAS / IFRS accounts. The draft IFRS proposal may mean that several national capital requirements from different business areas shall be disclosed, which results in distorted and incommensurable information. Especially this may be the case in conglomerates. In this case the entity should carefully consider what to present and how the information can be linked to IAS / IFRS accounts.

We think national solvency requirements should be as harmonised as possible. It would be favourable if the IASB co-operated with the EU solvency II project concerning solvency requirements for insurance companies before requiring more capital disclosures for the insurance industry. In order to get commensurable information on capital disclosures we need close co-operation between the IFRS Phase II Insurance Contracts project and Solvency II project.

Question 5 – Effective date and transition

The different effective dates of the IFRS 4 Insurance Contracts (1 January 2005) and ED 7 (1 January 2007) will cause unnecessary interim work. Therefore we propose a new paragraph to set 1 January 2005 as the effective date for those requirements of IFRSx (ED 7) which cancel requirements of IFRS 4 and other IFRSs.

ED 7 cancels certain requirements of IFRS 4 and IAS standards applied only by insurance companies. These requirements will be applied in 2005 – 2006 and cancelled by IFRSx (ED 7) on 1 January 2007. The possibility exists that the requirements come into force when Phase II Insurance Contracts standard should be applied. As the IASB considers those requirements need not be applied from 1 January 2007 there is no reason why they should be required for 2005 – 2006, especially as the companies which apply IFRSx (ED 7) from 1 January 2005 will not need to apply those requirements.

We propose a new paragraph, 49A, be added to the effect that those paragraphs of the IFRS 4, IAS 30 and IAS 32 which IFRSx (ED 7) cancels without removing them elsewhere in the standards will not be required to apply on or after 1 January 2005. In our understanding this new paragraph applies at least to the following paragraphs:
- IFRS 4: 39 (b), IG 49 – IG 50 except IG 49(a), (f) and IG 50(f) which are removed elsewhere.
- IAS 32: 91A the range of estimates.

(See additional points in our answer to question 7.)

Question 7 – Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)

We agree on the proposal to provide qualitative risk information.

The financial instruments that insurance companies issue often contain an interest guarantee and a DPF whose measurements have not yet been solved and should not be solved until the Phase II Insurance Contracts standard is adopted. Before that it is too early to require presentation of the fair value of the contracts and a sensitivity analysis.

It is not reasonable if the outcome of Phase II Insurance Contracts differs from the application of IFRSx (ED 7).

The consequences of the sensitivity analysis concerning financial instruments (paragraphs 43 - 45) without guarantees and DPF under title quantitative disclosures do not seem to be supported by valid arguments when the same requirements are transferred in practice to IFRS 4 Insurance Contracts in B10 paragraphs 38 and 39. We disagree with (BC60(a)) "it is … easier for preparers if risk disclosures for insurance contracts and financial instruments are the same."

In general the new requirements of ED 7 for insurance companies are in contradiction with the well-established exception that companies shall have proper time to comply with the new requirements of IFRS 4 Insurance Contracts. Most of the new requirements of ED 7 are not difficult to fulfil but the quantitative requirements for the sensitivity analysis go far from the idea of IFRS 4 Insurance Contracts. The data needed to produce quantitative analyses is of the kind we have supposed that insurance companies will not have it until Phase II Insurance Contracts.

If these quantitative requirements remain unchanged in IFRSx (ED 7) companies will be discouraged from applying IFRSx (ED 7) earlier than (1 January 2007). If the quantitative requirements do not remain in IFRSx (ED 7) some cancellations of the paragraphs of IFRS 4 shall remain in the standard and the above mentioned proposed paragraph 49A shall only apply to paragraphs IG 49(b) – (e).

We agree with the IASB that the quantitative requirements of ED 7 are more satisfactory than these possible narrative requirements. Companies which are ready to change over before Phase II Insurance Contracts to the quantitative sensitivity analysis may do it, but such changeover cannot be made mandatory before Phase II Insurance Contracts.

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