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Comment letter by the Allianz Group on Exposure Draft 7 Financial Instruments: Disclosures ("ED 7")

Dear Ms. Pryde,

The Allianz Group welcomes the Board's decision to revise and enhance financial instruments disclosures and appreciates the opportunity to comment.

The draft IFRS makes a number of changes to existing disclosure requirements that are welcome, for example with respect to the disclosure of terms and conditions of insurance contracts, and effective interest rate, all of which are proving difficult to collect. However, the timing of the draft IFRS causes considerable uncertainty. Early-adopting the draft IFRS for the year-end 2005 financial statements would solve that problem; however, there is no guarantee that the provisions will survive into the final draft. Moreover, there is no certainty as to whether the IFRS would then be endorsed by the EU in its entirety. Lastly, at this point in time it is difficult to assert that a company would be ready to early-adopt the final IFRS in its entirety, i.e., there may be other requirements that a company cannot comply with that would prevent it from early-adopting the standard.

Accordingly, we find ourselves in an difficult position on how to implement this draft IFRS in the current data collection process, which is in large based on IAS 32 and IFRS 4 requirements and well underway for 2005 IFRS financial statements. We recognise that there will always be uncertainty in determining which provisions of an exposure draft will survive into the final standard. However, providing additional transitional rules, e.g., the ability to early-adopt certain provisions and not others, may help companies to react late in the process of collecting information for the 2005 IFRS financial statements and avoid, as much as is possible, the cost of collecting disclosure information that will be no longer be required in 2007.

Regarding risk management disclosures, we support the approach to adapt to each entity's approach to manage risks. However, the draft IFRS is more prescriptive than IAS 32 as it makes sensitivity analyses wider in scope than just interest rate risk and it makes sensitivity analyses a requirement.

Further, we are very concerned with the proposal to extend the draft IFRS quantitative market risk disclosures to insurance contracts. Predicting the impacts on insurance contracts from changes in risk variables is a complex topic. While risk is managed internally, capital and risk management are based on very different recognition and measurement principles than those applied in the financial statements. Requiring the publication of the sensitivity analyses of IFRS net income and equity contradicts the IASB approach of allowing each company to disclose risk information that is consistent with how risk is managed internally. Moreover, the draft IFRS goes beyond US regulation, specifically the SEC's market risk disclosures, which do not require the inclusion of insurance contracts in sensitivity analyses. Furthermore, the SEC requirements on market risk disclosures are published in the MD&A and not in the notes to the financial statements. Our proposal would be that the sensitivity analyses proposed in the draft IFRS should not be extended to insurance until (a) phase 2 proposals are established and understood and (b) the work on Solvency 2 by the EU Commission is finalised, at which time comparable information will be available.

Lastly, in light of the issues above, we strongly believe that sensitivity analyses do not belong in the financial statements. We are concerned that the inclusion of such risk disclosures within the financial statements would give the measures undue weight in the eyes of the investor. We therefore advise the IASB to develop a similar mandatory reporting instrument as the MD&A.

Yours sincerely,

Dr. Susanne Kanngiesser
(Head of Group Accounting Allianz Group)