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Mr. Stig Enevoldsen
EFRAG, Chairman
Avenue des Arts 41
B -1040 Brussels

18 may, 2004

Re : IFRS Draft for comments: Adoption of IFRS 4 Insurance Contracts

Dear Mr Enevoldsen,

We are pleased to provide our comments on the draft letter concerning the adoption of IFRS 4 Insurance Contracts (IFRS 4) as published by the IASB on 31 March 2004.

Foreword

We understand that IFRS 4 is not to be considered a comprehensive and long-term standard and that, accordingly, it is to be considered as a first step toward that goal. We also acknowledge that IFRS 4 has been prepared in the light of not introducing extensive changes which based on the results of Phase II of the project might have to be then reversed.

Based on the foregoing, we regard IFRS 4 as a first step towards the issuance of a standard that will fully satisfy both the conformity with the overall framework of international accounting standards and the needs and expectations of the stakeholders.

IFRS 4 is a very significant change in principles for the Insurance sector, both in Italy and in other countries. It will have a strong impact over several entrepreneurial activities, ranging from the implementation of new models required by the new principles to the area of contract evaluation and assets management, where the implementation of IFRS 4 will require a thorough modification, including the organizational structure and the training of human resources.

Our comments are based on such premises.

The most critical areas

We concur in identifying the most critical areas in two unresolved problems:

a. the different principles for measuring insurance assets and liabilities, respectively at their fair value and amortised cost (the so-called mismatch).

b. the deposit floor limitation for investment contracts with a demand feature, based on the assumption that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (IAS 39 paragraph 49).

The mismatch issue

We agree with your comments on such point. We believe, however that for the time frame necessary for the standards to be completed as earlier mentioned, specific guidance should be provided for the insurer to report adequate information as to the effects caused by the adoption of the different principles in the measurement of assets and liabilities.

The deposit floor issue

We also concur with your comment on the "deposit-like" treatment of the financial component of an insurance contract which, as your comment clearly expresses, does not reflect the economic situation with which insurance companies have confronted as far as the long term savings collected are both considered by the policyholders and managed by the insurers.

In addition, we would like to add a further consideration as to the different treatment that, based on the "deposit" concept, would result for the insurance business versus the banking one. Under IAS 39, a bank may state both its institutional assets (loans and receivables) and its corresponding liabilities (deposits) at their amortized cost. Insurance companies are not allowed to do this. The Board replied partially to this point (paragraph 166(d)) since it permits Insurance companies to adopt the amortized cost basis solely for its loans and receivable, which are not part of the insurance core business. An item homologous to the core banking book assets, the core insuring book assets, would be the assets available for sales, bound as coverage of the so-called deposits, and not the loans and receivables. However, such assets should be stated at their fair value.

We, therefore, subscribe your conclusion the this issue should be reconsidered taking into account the context in which the insurance business approaches and manages its contract portfolio.

Conclusion

In the light of the considerations set forth in the foreword, we agree to recommend the adoption of IFRS 4. We also concur, as discussed in your draft, in urging the Board to start developing Phase II of this project in consultation with the main styakeholders.

Yours sincerely,

Prof. Angelo Provasoli
(OIC – Chairman)