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CEIOPS' position on the IASB document "Amendments to IAS 39: The Fair Value Option - preliminary second draft of a possible new approach"

Dear Sir,

On behalf of CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors), I am pleased to provide you with some comments on the document "Amendments to IAS 39: The Fair Value Option - preliminary second draft of a possible new approach".

The following comments regard the main areas of concern shared by EU Insurance Supervisors. According to the specific situation in each jurisdiction, some of them might provide additional comments in relation to issues particularly relevant to their own market and regulation.

General approach

As a general approach, a wide majority of EU Insurance supervisors support the preliminary second draft of a possible new approach on the Fair Value Option. The current text is regarded as an improvement compared to the Exposure Draft, as well as to the first draft version published in December 2004.

EU Insurance supervisors will monitor the use of such option by their supervised entities and will take appropriate supervisory actions including the use of prudential filters, if needed.

Conditions for using the options

With reference to the conditions for the use of the options, EU Insurance supervisors believe that the more principle based approach and the relationship between the application of the Fair Value Option and the documented risk management or investment strategy (§ 9.b.ii) would make the option more operational for insurance accounting.

In particular, EU Supervisors appreciate:

1) relating to the first condition (§ 9.b.i), the rewording clarifying that it applies to measurement mismatches and mismatches in the recognition of gains and losses.

However, some supervisors suggest that an explicit reference to an economic relationship between assets and liabilities could be added in the text of the standard, such as that made in the Basis for Conclusions, § BCX4: "The notion of an accounting mismatch necessarily involves two propositions. First, an entity has particular assets and liabilities that are measured or on which gains and losses are recognised inconsistently and second, there is a perceived economic relationship between those assets and liabilities".

2) relating to the second condition, the amendment to the previous version of the second condition for using the option (previously described as when the nature of the entity's activities is such that using the option results in more useful information) by reference to "a group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel". This reference to how information is provided to key management personnel facilitates the assessment of whether the use of the Fair Value Option is in line with the entity's documented strategy.

3) the narrowing of the previous third condition for using the option (described as when using the option simplifies the accounting that would otherwise be required). The new approach which limits it only to financial instruments containing one or more substantive embedded derivatives seems to be more acceptable.

However, some supervisors believe that more guidance could be provided in order to clarify the option to measure an instrument at fair value through profit or loss when separation of the embedded derivatives from the host contract is prohibited (paragraph AG33B).

In addition, all EU supervisors particularly share the emphasis the new draft puts on the need for reliable measurement for all the items measured at fair value.

Disclosure

EU supervisors strongly support the introduction of disclosure requirements regarding the conditions for applying the Fair Value Option. These requirements, by leading the entity to analytically motivate its choice for the application of the Option, might help in preventing or assessing a possible inappropriate use of the Option itself.

Some supervisors would also favour further or more explicit disclosure requirements concerning the reason of the entity for using the Option, e.g. on the nature of the abovementioned economic relationship (§ BCX4 and § 9.b.i).

Role of prudential supervisors

EU supervisors agree with the text on the role of prudential supervisors and with its relocation in the Basis for Conclusions.

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Should you wish to have any further clarification on CEIOPS's advice or to discuss the proposed issues more in-depth, please do not hesitate to contact Mr Fausto Parente by email (fausto.parente@isvap.it) or by phone at +39-06-42.133.481.

Yours sincerely,

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(CEIOPS Chair)