FEDERATION OF FINNISH INSURANCE COMPANIES
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20 November 2003

Mr Fabrice Demarigny
Secretary General
The Committee of European Securities Regulators
11-13, avenue de Friedland
F-75008 PARIS
France

STATEMENT ON FINANCIAL DISCLOSURE BY LISTED COMPANIES

RESPONSES TO CONSULTATION PAPER CESR/03-323b

Dear Mr Demarigny,

The Federation of Finnish Insurance Companies is pleased to present the following comments on the CESR draft recommendation on financial disclosure by listed companies during the transition from local accounting standards to International Financial Reporting Standards.

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 51, which includes 9 foreign insurers. In 2002 the volume of premium income was €6.0 billion for life and non-life, direct and reinsurance companies and €6.4 billion for statutory pension insurance companies.

Executive Summary

The main issues in the statement to CESR on financial disclosure by listed companies addressed by the Federation of Finnish Insurance Companies are summarised below:

1. Recommendations

The Federation supports harmonised and early disclosure of financial information by European listed companies whenever such disclosure does not mean additional costs which would outweigh any benefits for users. Therefore the Federation considers it useful to provide recommendations but not binding regulations.

2. Early disclosure of reconciliations

The early disclosure of IFRS1 reconciliations in the 2004 accounts encouraged in the draft recommendation is justified as long as it concentrates on material changes only and does not postpone publication of the 2004 financial data.

3. Interim reports in 2005

Basically the Federation does not consider it appropriate to present financial data for the first and third quarters in a manner different from the six-month report. IAS 34 sets out from the assumption that interim reports serve to update the latest full-year financial statements. For 2004 financial statements are prepared using the national accounting basis. Therefore in their 2005 interim reports, insurers should have a choice between two alternative accounting bases:

- national provisions supplemented by reconciliation information in accordance with IFRS1 where the differences from IAS are material
- IAS 34 interim figures supplemented by comparative figures for full-year 2004, too

4. Comparative figures for more than two years

The Federation supports the bridge approach referred to in the draft recommendation, which would mean that the 2004 figures would be presented under two regimes, the IAS standards and national provisions.

Recommendations (Questions 1 to 3)

As a supporter of harmonised disclosure of financial information by European listed companies during the transition phase, the Federation considers it useful to provide recommendations. In broad outline, the four-milestone transition process mentioned in the draft recommendation is clear and appropriate.

As national supervisors are likely to give their own recommendations only after the CESR recommendation, using that as the basis, particular attention should be paid to the timetable to ensure that the recommendations are issued early enough to be taken into account in companies' IAS/IFRS transition plans.

Likewise, it is important that any guidance issued by national supervisors is no more binding than the CESR recommendation. Then each country, and also individual industries in a country, could be allowed flexibility on points where flexibility is needed by either absence of final provisions or materiality of information.

Since the IAS/IFRS provisions have not been finalised yet in the insurance industry, it is not easy to speed up the transition process.

Disclosure in the 2003 accounts (Question 4)

It is appropriate to encourage listed companies to disclose narrative information about their process of moving to IFRS and about the major identifiable differences in accounting policies that the transition will bring about. However, it is important that the recommendation brings out the fact that the differences may be disclosed only if they are known with sufficient certainty at the time the 2003 accounts are approved for issue.

What makes it particularly difficult for insurers to make their transition plans is lack of finalised IAS/IFRS regulation on insurance contracts and insurers' investments. Delays in the IFRS provisions and differences between the IFRS and EU directive on insurers' annual accounts have slowed down amendment of national accounting legislation. This in turn has delayed changes in tax regulations. In a situation like this, it is not easy for insurers to make important, far-reaching choices relating to their accounting principles. For cost reasons, it would be prudent to seek to adopt identical valuation principles for both individual accounts and consolidated accounts. This will have to be compromised on in cases where identical principles would result in major tax consequences. Under the IAS regime, it may not always be possible to later change the choices made now (eg giving up recognition of unrealised gains as profits). Delays in completion of regulation make insurers postpone their choices as far into the future as possible to avoid a situation where they would have to change their accounting systems twice.

According to the latest IASB schedule, the Phase I insurance contract standard as well as IAS 39 and IAS 32 will be issued in a redrafted form in the first quarter of 2004 only. Translation work and adoption by the EU will take place after this. Interpretation of problem points will start after the adoption. Moreover, there are many points in earlier standards pending interpretation, such as treatment of Finnish statutory employee pension insurance. Besides the mentioned standards, there are other changes in the offing for standards applicable to 2005.

The most natural place for giving information on the transition process and the different accounting policies would be notes to the financial statements.

Disclosure in the 2004 accounts (Questions 5 to 6)

The early disclosure encouraged in the draft recommendation is justified as long as it does not postpone publication of the 2004 financial data.

The alternative procedure proposed in the draft is also necessary, because there may be items whose impact cannot be quantified reliably at the time the 2004 financial statements are approved for issue. This may happen, for instance, if any of the main IAS/IFRS standards or their interpretations fails to meet the present schedule.

Reconciliation in accordance with the IFRS1 provisions is welcomed as a guiding model but it may not be the only alternative, because disclosure of information as detailed as this might in some cases delay publication of the 2004 data. What is important at this point is to tell investors about the most important changes that are known to come. Reconciliation of cash flow statement should be disclosed only if it is of benefit to investors, because the change in the accounting method does not actually impact cash flows.

Notes to the financial statements would be the most appropriate place to give reconciliation information.

Disclosure during 2005 (Questions 7 to 10)

Basically the Federation does not consider it appropriate to present financial data for the first and third quarters in a manner different from the six-month report. Two different methods of presentation would probably only confuse investors and would require an explanation of the differences in the accounting principles. Correspondingly, the Federation does not support application of national rules together with IFRS recognition and measurement principles. This would only add to costs, because the practice involved would be an entirely new model of presentation devised for application in the 2005 interim reports only. Consequently, insurers should have a choice between two alternatives, IAS 34 and national provisions supplemented by reconciliation information in accordance with IFRS1 where the differences are material.

IAS 34 could in our view be applied if the number of changes is small, the volume of transactions to be restated can be managed without system changes and reliability assessment is allowed reasonable time. If, however, there are lots of transactions that need to be restated and lots of changes, and the implementation schedule is tight, pressed by delays in the completion of the standards, companies should have an option to report on material changes only, along the lines proposed in connection with the 2004 accounts, and prepare the reports according to national provisions in other respects. This would be a way to provide investors with a fair and true view of the effects of the IAS and at the same time reduce the expenses that would arise from disclosure of quarterly comparative figures on the line-by-line basis.

Additional benefits/costs

Under IAS 34, interim reports may not be referred to as IAS reports unless all the standards have been complied with. Although a great number of the changes may not be material for net profit and equity, the adjustments need to be made in order to produce line item data. Changing the quarterly comparative figures would result in unnecessary costs, with overlapping accounting, because the official consolidated accounts for 2004 will still be prepared in accordance with national provisions. Moreover, reporting for the first and second quarters may require separate accounting of the items to be restated, because new systems may not yet be available at the time, owing to delays in the completion of the standards. It is not even prudent in all respect to automate comparative data processing. According to the transition standard, IFRS1, each IAS report for 2005 has to be accompanied by reconciliation data (equity, profit/loss, cash flows) for the relevant quarter of 2004.

Nature of interim reports

IAS 34 sets out from the assumption that interim reports serve to update the latest full-year financial statements. As the matters now stand, the first full-year IAS/IFRS financial statements will be prepared for 2005. The accompanying comparative figures for 2004 are not a complete set of IAS/IFRS financial statements, because they do not include eg comparative figures for 2003. As a result, there are no exhaustive full-year IAS/IFRS financial statements available for 2004 which could be updated with IAS/IFRS interim reports in 2005.

Auditing and reliability of data

The 2005 IAS/IFRS financial statements, accompanied by comparative figures for 2004, will not be signed or audited until 2006. The first interim report for 2005, instead, will have to be released as early as May 2005. As there are many points that need interpretation in the new standards, a great deal of more time will be needed for preparing the first IAS/IFRS accounts in particular to ensure that the points that need interpretation can be discussed with the management (fair and true view) and the auditors. This is the only way to ensure reliability of the information.

Timetable

If the 2005 interim reports were prepared under present national provisions, the insurance industry would get almost an extra year for crafting the IAS/IFRS changes. This extra time would not only increase reliability of the data but also make it possible for insurers to make more sustainable choices and save costs. The long-range aim is to have the same accounting practice applied to both individual accounts and consolidated accounts to avoid costly multiple accounting.

Disclosure in connection with 2005 accounts (Questions 11 & 12)

The Federation is not in favour of presenting profit and loss account, balance sheet or cash flow statements again, because the accounting structures may be so different that the data would not be comparable. In such case, repetition would only bloat the accounting material, already extensive. A better alternative in our view would be to disclose where earlier financial statements are available and to encourage companies to preparation of informative reconciliation under IFRS1.

The Finnish standards require presentation of data for the year under review and the preceding year. This is where IFRS1 is to be applied. Even so, financial ratios reflecting the company's financial performance are to be reported for five years. In this respect, the Federation supports the bridge approach referred to in the draft recommendation, which would mean that the 2004 figures would be presented under two regimes, the IAS standards and national provisions.

The Federation will appreciate CESR consideration of the above comments and will be pleased to supply any further information that may be needed.

Yours sincerely,

Esko Kivisaari
Managing Director