INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

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Ref: 14/75

Via email: commentletters@iasb.org

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: IASB's discussion paper entitled *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging*

Dear Mr. Hoogervorst,

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the International Accounting Standards Board (IASB)'s discussion paper entitled *Accounting for Dynamic Risk Management: A Portfolio Revaluation Approach to Macro Hedging* (the DP).

We believe it important to dialogue on how best to improve the current framework for hedge accounting for all financial statement preparers, including insurance entities, so that users of the financial statements can better understand the effectiveness of an entity's risk management activities. We believe that the DP is a significant step forward in that dialogue.

Insurance entities engage in many risk management activities, both on a micro and macro scale, where there is a need to be transparent to the users of the financial statements. For insurance entities, especially those that have issued significant amounts of long-duration insurance contracts, asset-liability management (ALM) is a core and largely dynamic risk management activity typically conducted on a product segmentation basis.

Although the DP focuses on banking sector examples and issues, it clearly outlines that the proposals "…are potentially relevant to all entities that manage risks in open portfolios on a dynamic basis…is not intended to be limited to banks or interest rate risks."[1]

While we appreciate the efforts from the IASB to advance the dialogue specifically on the accounting for macro hedging, significant questions remain as to the potential application of the DP proposals to insurance entities.

Specifically, it is not clear to us how the DP proposals might interact with the current proposals under the IASB's insurance contracts project, nor even fully their relationship with

[1] IN 12, page 7 of the DP

existing IASB standards allowing OCI recognition. Also, the DP does not discuss the nature and extent of the eligibility criteria and requirements that might need to be in place for the application of macro hedge accounting (beyond the broad requirement that the risk be managed dynamically), the DP only suggests that additional requirements may be necessary. As a result, at this stage we cannot assess the potential application of the proposals to the insurance industry.

Finally, the DP raises some fundamental issues with respect to the use of information from risk management systems, including the consideration of risk exposures not yet recognized within financial statements, as well as the significant utilization of risk modelling and management judgements for financial accounting purposes. While a full alignment of accounting and risk management information could arguably be viewed as desirable in theory, without adequate safeguards in place to prevent a future hedge accounting standard from becoming an effective tool for significant reported earnings management, we are at this stage not necessarily convinced that it is specifically desirable in practice.

We encourage the IASB to further develop more detailed proposals for improving the accounting for macro hedges, and the IAIS stands ready to participate in such work, particularly where it more clearly relates to considerations for insurance entities.

If you have further questions regarding this letter, please contact Mark Causevic at the IAIS Secretariat (tel: +41 61 280 8323; email: mark.causevic@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,

P. Braumüller

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