Institute
and Faculty
of Actuaries

Hans Hoogervorst
Chairman of the International Accounting
Standards Board
30 Cannon Street
London EC4M 6XH

17 October 2014

Dear Mr Hoogervorst

DP/2014/1: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to comment on your Discussion Paper (DP) 'Accounting for Dynamic Risk Management: a Portfolio Revaluation approach to Macro Hedging'. This response has been prepared by the IFoA's Financial Reporting Group; its members have expertise in financial reporting and accounting standards.

The IFoA suggests the IASB's macro hedge accounting project should develop a view on the application of risk mitigating techniques for all industries; including insurers, to maintain consistent and comparable requirements for similar risks, and enable macro hedging to be considered across accounting standards. In this context, we believe the optional application (as opposed to a mandatory application) of macro hedging would be more appropriate, so as to avoid any unintended consequences from interactions with other accounting standards; and the position where the end-user benefits are outweighed by the implementation costs (for example, the likely disclosure requirements and tracking effort).

Insurers manage both open and closed insurance portfolios consisting of blocks of business of insurance contract liabilities and backing assets. A significant proportion of these assets are often financial instruments, in order to achieve good matching. For example, financial guarantees and options provided to policyholders are often dynamically managed by insurers through the holding of hedging instruments (including derivatives such as swaps). We note that in the insurer sector today, the use of current hedge accounting is limited due to its scope of application and the interaction of existing accounting standards.

The relevance of this DP to the insurance sector will depend on the combined impact of IFRS 9 (Financial Instruments), as published earlier this year, and the conclusion of your Insurance Contracts project ("IFRS 4 Phase II"). Consistency in the measurement of insurance contract liabilities and supporting assets is important to reduce accounting mismatches in profit or loss and to provide meaningful financial statements. At this stage in the development of IFRS 4 Phase II, the relevance of this DP to the insurance sector is unclear. We request that, in developing the future exposure draft on macro hedging, there is consideration of bona fide risk management practices adopted in the insurance sector and the interaction with the final requirements of IASB's Insurance Contract project.

Should you want to discuss any of the points raised please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk / 0207 6322 121) in the first instance.

Yours sincerely,

Kamran Foroughi

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