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Dear Sir/Madam,

**Comments from FSR – danske revisorer on the IASB Exposure Draft Insurance Contracts**

EFRAG has asked for comments on EFRAG's Draft Comment Letter issued on 5 August 2013 on the revised Exposure Draft, Insurance Contracts.

FSR – danske revisorer (FSR - Danish Auditors) is represented in the Insurance Working Party of FEE (The Federation of European Accountants) and has through FEE contributed to the EFRAG consultation process by submitting on 2 October 2013 the FEE comments on EFRAG's Draft Comment Letter. The FEE comment letter includes comments to each question raised in the IASB exposure draft as well as supplementary EFRAG questions to constituents. For further comments, we refer to the FEE comment letter.

Our comment letter only focuses on specific issues related to the Danish Insurance industry which for a long period has adopted full fair value accounting through profit and loss in both non-life and life insurance.

**IASB question 1 - Adjusting the contractual service margin**
As mentioned in the FEE comment letter to EFRAG, FEE also believes that the contractual service margin should be adjusted for changes to the risk adjustment that relate to future services. We support this comment.

The lock in of risk margin at initial recognition and subsequent changes in profit and loss does not in our opinion provide any useful information when changes in cash flows are adjusted in the service margin (until the exhaustion of CSM). We, therefore, agree with EFRAG that the contractual service margin should also be adjusted to reflect changes in estimates of the risk adjustment associated with future coverage.

Though the risk margin does not provide any prescribed methodology for calculation, the requirement to disclose a corresponding fractile in effect reduces possible methods.

**IASB question 2 - Contracts that require the entity to hold underlying items and specify a link to returns on those underlying items**

We support the Mirroring approach but suggests that the principle and the purpose be clarified. As FEE mentions, the scope of contracts that may qualify for mirroring may appear to be too narrow. The selected examples and the restrictive descriptions limit the understanding of the objective and may – without it being intended – limit the jurisdictions' use of the method because there are so many different products with profit sharing on the different markets.

The current wording is not clear on how the different Danish market rate products with profit sharing are to be treated according to the described principles. Therefore, we recommend that the principles be described and that the examples either be extended or left out if it concerns a principle approach.

As EFRAG mentions, the European insurance industry and other global insurers are developing an alternative to the IASB's "mirroring approach" which is based on the present value of the fulfilment cash flows for all insurance contracts. Appendix 5 in EFRAG's draft comment letter provides an overview of the key elements of the alternative approach of the insurance industry for participating contracts. Since participating contracts are dominating the Danish life-business, we support that this alternative approach be made subject to closer examination from IASB's side as the described approach at first glance seems practical and less complex and probably in some areas more in line with the well established practical treatment of life business in Denmark.

**IASB question 3 - Presentation of insurance contract revenue and expenses**
We refer to the comment letter from FEE and have no further comments.

**IASB question 4 - Interest expenses in profit and loss**
We are of the opinion that the lock in of interest rate to specify the separation of "realized" interest rate versus subsequent changes in interest rate/discounting rate requires the insurance policy to follow the original interest curves over the service period.

We believe this to be an administrative burden which will not be in line with the actual information provided. Therefore, we would propose the requirement to lock in the interest rates/discounting rates at initial recognition to be changed to be an option to use the OCI only when this reduces the accounting mismatch from the use of FVOCI in classifying assets under the coming IFRS 9.

In the Danish market, present values in measuring insurance liabilities have been used since 2005 in combination with a required use of FVOPL. This principle has the advantage of the companies being able to recalculate the interest rate on a current basis with no requirements to keep track of the initial portfolios at inception/initial recognition other than for CSM purposes. Also the option will make the administration re. subsequent changes in the service margin less onerous in an administrative sense. In the current proposal, any subsequent change in expected cash flows to be allocated to a specific portfolio at first recognition needs to establish a link to a specific interest rate curve/discounting rate.

We are of the general opinion that recognition of changes in fair value on both assets and liabilities through profit and loss better present the economical development, volatility and possible asset/liability mismatch of an insurance company activity. A substantial use of derivatives and investments in shares and property to back the insurance liabilities, characterises the Danish Life business. Hence, it will lead to accounting mismatch in the Danish business if use of FVOCI on insurance liabilities will be mandatory.

We therefore fully support the comment from FEE of a non-mandatory use of OCI and the introduction of a policy choice on a portfolio basis on whether to present the effect of changes in the discount rate in profit and loss or OCI.

We support primarily that the general principle for recognising changes to the fulfilment value of insurance contract should remain profit and loss as suggested in the 2010 ED. This will be in line with our comments on IFRS 9 that FVOCI should be an option for financial liabilities.

However, we understand that this will result in accounting mismatch in a number of other jurisdictions. We, therefore, secondarily support that the solution can be an option to recognise all changes in the insurance liability measurement in profit and loss.

**IASB question 5 - Effective date and transition**
We refer to the comment letter from FEE and have no further comments.

**IASB question 6 - The likely effects of a Standard for insurance contracts**
As mentioned by FEE, the ED proposal can form a basis of an improvement in comparison with the existing requirements to get to more useful and relevant information for the users.

One likely effect of the proposed standard will be that specialist insurers (bank owned life and pensions providers) would opt for the summarised presentation as this would be in line with the banks' presentation. A presentation of the activity based revenue would not provide any useful information in this context.

**IASB question 7 - Clarity of drafting**
We refer to appendix 4 to the comment letter of FEE which includes comments on drafting clarification to EFRAG clarification as well to other areas' need for clarification.

Kind regards


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