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Date
08.10.2014

**EFRAG's draft comment letter on IASB's Discussion Paper
"Accounting for Dynamic Risk Management: a Portfolio Revaluation
Approach to Macro Hedging" (DP/2014/1)**

Dear Ms Flores

The German Insurance Association (GDV) appreciates the opportunity to comment on EFRAG's draft comment letter (CL) regarding the Discussion Paper "Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging" (DP/2014/1), issued by the IASB on the 17 April 2014 for public comments.

We acknowledge the considerable efforts undertaken by EFRAG to create an exhaustive response to the DP/2014/1. However, we are not supportive of the main assumption of the draft CL which is the general disagreement with the scope of the portfolio revaluation approach (PRA) that focuses on dynamic risk management. We do not share the rationale for this tentative position. In particular, we believe that the PRA with the scope focused on dynamic risk management would provide useful information (against paragraph 41 of the draft CL). In addition, we disagree that it "would substantially eliminate the amortised cost basis of accounting [in the banking book]" (paragraph 41 (c) of the draft CL). Furthermore, we do not share the tentative view that only expanded disclosures [in the notes] might resolve the potential need for meaningful information regarding risk exposure when applying amortised cost accounting in the primary financial statements. From the GDV's perspective, the primary financial statements can and should contain transparently presented information on risks the reporting entities are exposed to. The PRA as developed by the IASB (and accompanied by a proper presentation approach for income statement, OCI and balance sheet) might be a suitable starting tool to achieve such transparency, while taking into account the different accounting basis applied by reporting entities in line with the underlying business model.

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We appreciate the explicit acknowledgment that also insurers manage their open portfolios of assets and liabilities together with respect to different exposures (i.e. interest rate risk exposure, duration mismatch exposure) and also these types of dynamic risk management activities should be reflected appropriately in the financial statements (paragraphs 49 - 51 of the draft CL). In our view, insurance liabilities must be considered as part of the 'managed exposure' at future steps of the IASB project.

Nevertheless, as already noted above, all answers to the questions in EFRAG's draft CL are based on the preference for a risk mitigation approach (paragraphs 1, 37, 226 of the draft CL). Therefore, we **do not support the general direction of the draft CL**. Especially, we are concerned that IASB's Discussion Paper and EFRAG's draft CL likewise do not provide any suggestion how the PRA might be applied in a current measurement environment as required for insurers in the ongoing insurance contracts project. We believe that any general non-industry specific 'macro hedging' solution needs to respect also the characteristics of the insurers' business model and allow the use of the OCI presentation.

For the reasons above, we recommend to EFRAG to not reject the PRA with the scope focused on dynamic risk management in an ultimate way at this stage of the project. A better alignment of the risk management with financial reporting is a desirable objective. In addition, the GDV requests that the next step in the process, i.e. the potential Exposure Draft on an accounting approach for dynamic risk management should only be issued after the final standard for insurance contracts is available and its conceptual alignment with IFRS 9 Financial Instruments can be assessed holistically on a valid and stable basis. We urge EFRAG to continue to support this procedural request towards IASB (paragraph 45 of the draft CL).

For our detailed rationale we kindly refer to the explanations in our comment letter as submitted to the IASB. And the GDV reserves its right to verify the current position in light of the final insurance contracts standard.

If you like to discuss our comments in more detail, we would be delighted.

With best regards



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**Discussion Paper “Accounting for Dynamic Risk Management:
a Portfolio Revaluation Approach to Macro Hedging” (DP/2014/1)**

Dear Mr Hoogervorst

The German Insurance Association (GDV) appreciates the opportunity to comment on the Discussion Paper “Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging” (DP/2014/1) as issued by IASB on 17 April 2014 for public consultation.

We are closely following the activities undertaken by the IASB to develop an appropriate approach to better reflect the results of the underlying dynamic risk management activities of reporting entities in financial statements and thus to better align financial reporting with risk management. Although our assessment can be finalized only after the standard for insurance contracts (IFRS 4 Phase II) is completed, we would like to share some observations on certain aspects of the DP with you already at this stage and considering the focus of the DP on the interest rate risk. We are however concerned that the proposed portfolio revaluation approach and the DP at large are mainly focused on the business model of banks and their core business activities although we understand that the outcome of the project should lead to an amendment to IFRS 9 ‘Financial Instruments’ which is a non-industry specific standard. Therefore, we are disappointed that the DP does not address the potential application of the portfolio revaluation approach in a current measurement situation but is limited to amortised cost accounting case only.

We believe that any approach for dynamic risk management needs to consider the current fulfilment value measurement of insurance contracts and the mixed measurement approach for assets backing these insurance contracts to be suitable to reflect the insurers’ business model and thus to be acceptable to insurers. Furthermore, we would not accept an implicit

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obligation for insurers to implement a banking oriented risk management environment or IT-systems through the back-door.

In addition, we have the view that level playing field regarding the transparency requirements for primary financial statements must be ensured. Thus, we support the scope of the portfolio revaluation approach focused on the dynamic risk management of entities rather than its limitation to risk mitigation only. In future, insurers will be required to transparently present their risk exposure in the primary financial statements on a current measurement basis. The problematic consequences of the current measurement approach regarding the undesirable artificial volatility in profit or loss will be approached by allowing for use of the other comprehensive income presentation. Therefore, also the portfolio revaluation approach through other comprehensive income should be considered in the further work on the project when extending its scope to other risks and beyond amortised cost environment.

The GDV believes that the next step in the process, i.e. the ED on an accounting approach for dynamic risk management should only be issued after the final standard for insurance contracts (IFRS 4 Phase II) is available and its alignment with IFRS 9 can be assessed in a holistic way on a stable basis. In addition, also insurance liabilities must be considered as part of managed exposure at further steps of this important project. **Therefore, the GDV reserves explicitly its right to verify its tentative assessment of the IASB's proposals in light of the final outcome of the insurance contracts project and its interaction with IFRS 9.**

For our comments in more detail we kindly refer to our responses to specific questions in the annex. We are committed to accompany you in further steps of the project. If you would like to discuss our comments in more detail, we would be delighted.

With best regards



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Member of the Board
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Annex

Question 1 – Need for an accounting approach for dynamic risk management

Do you think that there is a need for a specific accounting approach to represent dynamic risk management in entities' financial statements? Why or why not?

We believe that the DP correctly identified the need to explicitly address the question how to account for dynamic risk management activities of entities. However, this need applies to different industries, not only to banks' lending activities.

The GDV is concerned that the DP issued by the IASB for public consultation and dealing with potential amendment to a not-industry specific standard IFRS 9 Financial Instruments is mainly focused on specifics of one, i.e. banking industry. From our perspective, any approach the IASB might take needs also to consider the specific characteristics of the insurers' business model as IFRS 9 is also of utmost importance for insurance undertakings. Therefore, we believe that IASB should equivalently deeply explore ways how the DP's approach for dynamic risk management might be applied to insurers' business model.

Insurers used to manage portfolios of insurance contracts which are open portfolios where new insurance contracts are added and existing policies are fulfilled or expire on a regular basis. As a matter of fact insurers are committed to fulfil their (in many cases very long term) contractual obligations to policyholders and obliged to ensure it via appropriate asset management strategy and related risk management activities. It is essential that the different variations of asset liability management strategies of insurers are appropriately reflected in primary financial statements to provide useful information to users about the outcome of management efforts.

In our current assessment it is **decisive that the insurance contracts project** (IFRS 4 Phase II) **provides sufficiently robust accounting solutions**, also with respect to its consistent interaction with the recently issued IFRS 9. Only having a valid evaluation basis the need for additional accounting solution for proper reflection of insurers' business model can be assessed. In addition, the IASB has not yet explored how the suggested approach might work for current measurement environment (e.g. for insurance contracts) in contrary to amortised cost approach for simple debt instruments and financial liabilities managed by banks. Therefore, the **GDV reserves explicitly its right to verify its tentative assessment** of the IASB's proposals based on the final insurance contracts standard.

Question 2 – Current difficulties in representing dynamic risk management in entities' financial statements

- (a) Do you think that this DP has correctly identified the main issues that entities currently face when applying the current hedge accounting requirements to dynamic risk management? Why or why not? If not, what additional issues would the IASB need to consider when developing an accounting approach for dynamic risk management?
- (b) Do you think that the PRA would address the issues identified? Why or why not?

(a) We refer to our response to Question 1.

(b) The GDV appreciates that IASB is exploring the issue how to depict dynamic risk management activities of reporting entities in a more appropriate way in primary financial statements. A closer alignment of risk management practices and financial reporting is worth considering as a more direct utilisation of information provided by risk management for purposes of financial reporting might significantly reduce costs of preparers.

As long the final insurance contracts standard is not available, a valid basis for assessment of application of PRA for insurers' business model is not ultimately feasible. Nevertheless, in general, we believe that the PRA as suggested for application for amortised cost environment in banking industry is mainly addressing the issues identified as being a reason for the project. The accounting mismatch because of accounting provisions in IFRS 9 for lending / refinancing activity and for derivatives used to mitigate the interest rate risk leads to distorted presentation of financial performance in profit or loss of affected entities. This issue needs to be addressed on the level of primary financial statements in an appropriate way.

However, if the objective of the project is not solely the question how to overcome certain accounting mismatches in performance reporting for a specific industry but in general how to better depict the dynamic risk management in entities' financial statements, the PRA as suggested is too narrow in scope. Especially, also insurance liabilities must be considered as part of managed exposure (A7 Glossary) at further steps of the challenging project.

Regarding our position on the material scope of the PRA we refer to our response to Question 15.

Question 6 – Recognition of changes in customer behaviour

Do you think that the impact of changes in past assumptions of customer behaviour captured in the cash flow profile of behaviouralised portfolios should be recognised in profit or loss through the application of the PRA when and to the extent they occur? Why or why not?

In our assessment it is indispensable that the impact of changes in such assumptions is incorporated into the application of the PRA. The question if this always needs to immediately affect the profit or loss or can be presented differently needs to be further explored. This is especially true for the PRA when further developed for the application to other risks and adjusted to current measurement environment being required for insurers via future insurance contracts measurement provisions as decided for insurance contracts project (IFRS 4 Phase II). In addition, as decided by the IASB during the recent deliberations on IFRS 4 Phase II in certain cases the contractual service margin (CSM) is foreseen to absorb the effects of particular changes in assumptions in cases in which an immediate profit or loss effect is not considered to be appropriate.

Question 8 – Risk limits

Do you think that risk limits should be reflected in the application of the PRA? Why or why not?

We understand that with term 'risk limits' are meant entity specific thresholds within which entity is willing to accept risk exposure without mitigating it via risk management activities.

From our perspective it would be only consequent to consider the risk limits applied in risk management when reflecting the dynamic risk management in financial accounts. However it does not mean that accounting needs to impose any bright line rules or tests. On the contrary, the PRA should also be applied when risk exposure remains within the limits as long its calculation is material for users. The opposite view would create a counterintuitive situation, that the wider the risk limits are, i.e. the greater the risk appetite of the reporting entity, the less the profit or loss statement would faithfully present the underlying economic performance of the reporting entity. We do not believe that certain disclosures requirements for the notes would compensate that deficiency. This is one of the reasons, why we tend to favour the focus on dynamic risk management for the PRA (Question 15).

Therefore, we fully agree with the IASB's tentative view in paragraph 3.8.4 that risk limits should not be incorporated into the PRA. We also encourage the IASB to not develop any specific accounting application guidelines

for risk limits consideration. We have the view, it should be the explicit purpose of qualitative disclosures to provide insight for external users regarding the level of risk limits (i.e. risk appetite) applied by reporting entities if any.

Question 15 – Scope

- (a) Do you think that the PRA should be applied to all managed portfolios included in an entity's dynamic risk management (ie a scope focused on dynamic risk management) or should it be restricted to circumstances in which an entity has undertaken risk mitigation through hedging (ie a scope focused on risk mitigation)? Why or why not? If you do not agree with either of these alternatives, what do you suggest, and why?
- (b) Please provide comments on the usefulness of the information that would result from the application of the PRA under each scope alternative. Do you think that a combination of the PRA limited to risk mitigation and the hedge accounting requirements in IFRS 9 would provide a faithful representation of dynamic risk management? Why or why not?
- (c) Please provide comments on the operational feasibility of applying the PRA for each of the scope alternatives. In the case of a scope focused on risk mitigation, how could the need for frequent changes to the identified hedged sub-portfolio and/or proportion be accommodated?
- (d) Would the answers provided in questions (a)–(c) change when considering risks other than interest rate risk (for example, commodity price risk, FX risk)? If yes, how would those answers change, and why? If not, why not?

(a) - (b) We believe that appropriate reflection of dynamic risk management activities of reporting entities is essential for the purposes of useful financial statements. It is also in line with the favoured management approach and the matter of fact that the proper consideration of different business models in financial reporting makes the financial statements more relevant for users. Thus, if there is an uncovered exposure to economic risks like interest risk, it should be depicted in primary financial statements.

For these reasons the GDV tends to prefer the scope focused on dynamic risk management. In particular, we believe that IASB made a considerable progress to recognise that the scope focused only on risk mitigation might not be the solely possible solution. Also for purposes of level playing field we believe that IASB should further develop an approach with a scope

focused on dynamic risk management, while considering the conceptual challenges with respect to commonly accepted accounting principles.

The final insurance contracts standard will require for insurance contracts a current measurement and this will lead to fully transparent presentation of financial position of insurers and the risks they are exposed to. The application of PRA to other industries based on the wider scope would create the equivalent level of transparency. In addition, scope of PRA focused in dynamic risk management might be also suitable to overcome potential deficiencies of final IFRS 4 if any regarding the faithful presentation of financial performance of insurers. The details can be obviously only developed after the insurance contracts standard gets final.

However, it does not mean that volatility in profit or loss statement must be the consequence when it is not in line with the underlying business model of the reporting entity. The stable nature of the long term business model of insurers should be the driver for finalisation of insurance contracts project in first step and for further steps for IASB's work of PRA project as well. Therefore, we appreciate that the IASB is interested on how to reflect the stable net interest margin as in line with the underlying business model of banks. Also the business model of insurers should be enabled to be presented in line with long-term performance, although the insurance contracts project requires a current measurement approach (current balance sheet) and the suggested PRA is based on the amortised cost accounting approach for simple loans and financial liabilities held by banks.

For these reasons above we believe that insurance liabilities must be considered as part of managed exposure (A7 Glossary) at further steps of the challenging project. In addition, the application of PRA in current measurement environment needs to be developed. Only an adjusted PRA (potentially in combination with appropriate use of the OCI presentation approach, Question 26) might be suitable to reflect the needs of the final insurance contracts standard (IFRS 4 Phase II) and its interaction with IFRS 9 Financial Instruments.

(c) We have the view, that PRA with the scope focused on dynamic risk management is operationally less challenging than the one with the scope focused on risk mitigation. The latter one would require defining the cases in which risk mitigation is assumed to be existent and the extent of it. In addition, dynamic risk activity occurs on both sides of the balance sheet, thus a focus only on existence of derivatives or not seems to be a too constrained approach.

Furthermore, already the objective of the new general hedge accounting model is to enhance the link with risk management. To focus the macro hedge project on risk mitigation only would be a step back. We believe

that a better alignment of financial accounting with economic results of the dynamic risk strategies would result in less artificial volatility in profit or loss. In addition, we understand that the primary objective of the project is not to reduce the volatility in profit or loss, but to better reflect the outcome of internal risk management activities of reporting entities. We believe that an appropriately developed approach incorporating the other comprehensive income presentation can be made applicable to insurers and their unique long-term business model. Thus, especially short-term market volatility in the income statement would not provide users with meaningful information on the actual underlying performance of the insurance company. From the perspective of the insurance contracts project users are still enabled to get insight on the impact of the volatility on reporting entity by referring to movements in other comprehensive income and the CSM roll-forward tables.

The scope focused on risk mitigation would also require tracking revaluation adjustments to their corresponding underlying items which would create a need for extensive documentation efforts. This would also contradict the portfolio approach to manage these items. Furthermore, we question the IASB's concern that the application of PRA would lead to a lack of comparability between entities. Different risk management strategies lead to different financial results which should be made transparent in financial reporting.

Furthermore, limiting the scope of PRA to risk mitigation only would lead to the need to track and disclose every change in the degree of risk mitigation; otherwise the comparability of results between reporting periods cannot be ensured. In addition, the change of level of risk mitigation might open the door for earnings management as the effects of risk exposures not addressed by risk mitigation instruments would not be reflected in the primary financial statements. The scope focused on dynamic risk management seems to be a less judgmental and more transparent approach regarding the reflection of risk exposure of entities. This is especially important for insurers being also long-term oriented investor on financial markets.

Finally, the scope focused on dynamic risk management might also provide an implicit incentive to more actively follow the risk mitigation strategies to avoid uncovered risk exposure positions.

Irrespective of our comments above, please note that **our tentative view can change** in light of the Board's final conclusions on the insurance contracts project, especially with regard to contracts with participating features. **Ideally**, insurers would not need to use the PRA when applying the final insurance contracts standard in connection with IFRS 9 and other related standards for non-financial assets backing insurance liabilities.

Question 16 – Mandatory or optional application of the PRA

- (a) Do you think that the application of the PRA should be mandatory if the scope of application of the PRA were focused on dynamic risk management? Why or why not?
- (b) Do you think that the application of the PRA should be mandatory if the scope of the application of the PRA were focused on risk mitigation? Why or why not?

In general, it seems to be too early at this stage of the process to be able to ultimately consider/decide whether the final approach for accounting for dynamic risk management, thus if the PRA should be mandatory or optional and on which conditions the optional use might apply. In addition, from the insurers' perspective a significant challenge for the IASB will be to develop an adjusted PRA for current measurement environment and to incorporate insurance liabilities into the scope of the discussion paper in similar conceptual depth like it has been provided for banking industry.

Nevertheless, we would like to share the following **tentative** observations, based on our conceptual views on the current stage of the project:

A mandatory application might be conceptually suitable if the PRA scope is to reflect dynamic risk management (Question 15). We believe however that any future documentation and disclosure requirements might be excessive and thus operational very challenging and costly. Therefore, for pragmatic reasons we tend to prefer a non-mandatory application of any design of final PRA. The reporting entities should be enabled to assess and decide if the entity specific cost-benefits relation is positive or not.

From the conceptual perspective, any potential generally applicable solution being developed to serve to all industries' needs might be assessed differently by different industries/undertakings. The current deliberations in the discussion paper are solely focused on IT- and regulatory environment for banks. Any future requirements should not effectively force insurers to apply the banking IT-solutions or banking regulatory requirements.

For these reasons above, we believe that an optional application might be more suitable than an obligation. And the consideration whether the user benefits do (not) outweigh the implementation costs shall remain an entity specific decision. However, our **tentative assessment can change** in light of the Board's final conclusions on the insurance contracts project. **Ideally**, insurers would not need to use the PRA when applying the final insurance contracts standard in connection with IFRS 9 and other related standards for non-financial assets backing insurance liabilities.

Question 18 – Presentation alternatives

- (a) Which presentation alternative would you prefer in the statement of financial position, and why?
- (b) Which presentation alternative would you prefer in the statement of comprehensive income, and why?
- (c) Please provide details of any alternative presentation in the statement of financial position and/or in the statement of comprehensive income that you think would result in a better representation of dynamic risk management activities. Please explain why you prefer this presentation taking into consideration the usefulness of the information and operational feasibility.

(a) We tend to prefer the single net line item as the most suitable approach for the statement of financial position. It would well correspond with the separate presentation of the derivative position. We object the line-by-line gross up approach as the least understandable one.

(b) We tend to prefer the actual net interest approach for the statement of comprehensive income. Stable interest income approach might create potentially misleading information to users regarding the economic performance of reporting entities as it might suggest that the risk management objective to stabilise the net interest income is fully achieved which might usually not be the case. The actual net interest approach might also have some positive impact on the amount of potential disclosure requirements (paragraph 6.3.19 of the DP).

(c) We do not provide any alternative suggestion for presentation approaches at this stage of deliberations. We do not believe that insurers have at present a valid basis to holistically assess the need to search for further alternatives (e.g. offset against the contractual service margin (CSM)).

Please note, that **our present tentative assessment can be verified** in light of the Board's conclusions on the insurance contracts project, especially with regard to the final presentation approach for income statement and balance sheet for contracts with participating features. We believe that further work needs to be done by IASB to explore this important interaction before taking any final conclusions on the PRA presentation approach.

Question 20 – Disclosures

- (a) Do you think that each of the four identified themes would provide useful information on dynamic risk management? For each theme, please explain the reasons for your views.
- (b) If you think that an identified theme would not provide useful information, please identify that theme and explain why.
- (c) What additional disclosures, if any, do you think would result in useful information about an entity's dynamic risk management? Please explain why you think these disclosures would be useful.

(a) - (b) In general, we think that the identified themes would provide useful information on dynamic risk management applied by the reporting entity. However, we believe that the IASB should always carefully balance the cost-benefits aspects of the new disclosure requirements, in particular considering the existing ones (e.g. IAS 1 Presentation of Financial Statements, IFRS 7 Financial Instruments: Disclosures or IFRS 4 Insurance Contracts). In addition, any new disclosure requirements should be defined and evaluated in a holistic way in line with the objective of the IASB's Disclosure Initiative with the aim to not contradict its essential objectives which is to make disclosures more effective.

Furthermore, we believe that especially in the situation in which a meaningful presentation is transparently provided on the face of balance sheet or income statement (Question 18), the amount of necessary disclosures might be significantly reduced (paragraph 6.3.19 of the DP). In our view, the disclosures in the notes should explain the numbers in the primary financial statements but not replace their deficiencies.

Finally, in our view any particular disclosures requirements should allow entities to disclose entity specific information which are relevant for users. Therefore, the disclosure requirements should be defined in a principle-based way rather than through a strict list of particular requirements.

(c) We are not providing any suggestion regarding any possible additional disclosures at this stage of the project.

Question 21 – Scope of disclosures

- (a) Do you think that the scope of the disclosures should be the same as the scope of the application of the PRA? Why or why not?
- (b) If you do not think that the scope of the disclosures should be the same as the scope of the application of the PRA, what do you think would be an appropriate scope for the disclosures, and why?

In our view there might be a conceptual rationale to require disclosures being in line with the underlying scope of the PRA. As the objective of the PRA being focused on dynamic risk management is to better align risk management activities with financial reporting, it is consequent to require a proper explanation of implications of PRA to primary financial statements' aggregated information. Nevertheless, meaningful disclosures in the notes should provide relevant information to enable users to assess to what extent entity's net open risk positions are (or not) addressed by risk mitigation strategies/activities, irrespective of the final scope of the PRA.

Furthermore, from the perspective of insurers as major investors an appropriate level of relevant information provided by financial statements can only be achieved if also information about risk exposures is provided if risk exposure is not dynamically managed by reporting entities. Therefore, we believe that a more holistic look at any disclosure requirements package and its operational feasibility should be taken at the further stages of the project once again. Finally, any existing disclosure requirements should not be duplicated.

Question 25 – Application of the PRA to other risks

- (a) Should the PRA be available for dynamic risk management other than banks' dynamic interest rate risk management? Why or why not? If yes, for which additional fact patterns do you think it would be appropriate? Please explain your fact patterns.
- (b) For each fact pattern in (a), please explain whether and how the PRA could be applied and whether it would provide useful information about dynamic risk management in entities' financial statements.

The IASB discusses in the DP only interest rate risk management of banking sector. We recommend to the IASB to undertake equivalent efforts to include insurance contracts liabilities into the managed exposure being in the scope of the PRA at further stages of the project. Especially, the objective of the further outreach should be how to appropriately reflect differ-

ent dynamic risk management strategies not only of one industry and not only with regard to one specific risk.

For example, insurers are managing open insurance contracts portfolios not only with regard to interest rate risk, but also actively consider the exposure to duration mismatches, longevity or liquidity. However, to appropriately assess the need for the PRA to better reflect these exposures insurers need to know the final outcome of the insurance contracts project (IFRS 4 Phase II), as explained above.

Therefore, we fully appreciate that the IASB already acknowledged the need to further explore the scope of the current project and plans to investigate the needs of other industries, irrespective if risks result from financial or non-financial items.

Question 26 – PRA through OCI

Do you think that an approach incorporating the use of OCI in the manner described in paragraphs 9.1–9.8 should be considered? Why or why not? If you think the use of OCI should be incorporated in the PRA, how could the conceptual and practical difficulties identified with this alternative approach be overcome?

We strongly believe that the application of the other comprehensive income for the PRA should be further considered in the next steps of the project, especially when extending the application of the PRA to the current measurement environment such as already intended for insurers via insurance contracts project (IFRS 4 Phase II).

In our view, the use of other comprehensive income is in general not only an essential tool to avoid artificial volatility in profit or loss. It also leads to increased understandability and comparability in financial performance reporting of reporting entities as it separates the true underlying performance from the short term market driven volatility in a disciplined way when appropriate.

We acknowledge that the IASB's objective of the project is not primarily to reduce the volatility in profit or loss but to better reflect the internal risk management of entities, with an effect of stabilising the performance reporting of banks. Nevertheless, from the perspective of insurers it might be decisive if the final PRA would cause more or less economically not appropriate volatility in profit or loss. This can be subject to further more holistic consideration only after the final requirements for insurance contracts (IFRS 4 Phase II) are available and its interaction with the mixed measurement model for financial assets (IFRS 9) is evaluated.

Finally, we wonder that one alternative to PRA has not been even explored in the discussion paper: recognition of fair value changes in derivatives in other comprehensive income. This way the distortion in profit or loss could be avoided in an effectively straightforward and understandable way. The rationale for excluding this possibility has not been explicitly provided. From the economic point of view, the same economic situations should be treated the same way in financial accounts. If there is an accepted rationale for presentation of fair value changes in other comprehensive income when using simple debt instruments, the same presentation alternative should be feasible when using derivatives to extend the duration of matched period considering the matter of fact that insurance liabilities are usually relative longer than backing them financial assets (e.g. bonds).

Concluding remark on the interaction of the portfolio revaluation approach in the DP with the final Conceptual Framework

We acknowledge that the portfolio revaluation approach as suggested in the DP is not meant by the IASB to be a modification to the known hedge accounting rules (e.g. paragraph 3.10.13 of the DP). Especially for that reason we recommend to the Board to explicitly consider the interrelation of suggested approach in the DP with the concepts of the Conceptual Framework which is currently subject to revision. We do believe that the conceptual consistency with the final Conceptual Framework might be necessary to increase the understandability and acceptance of the new approach for how to more appropriately and transparently represent the dynamic risk management of different business models in primary financial statements of reporting entities.