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DIRECTION DES AFFAIRES ECONOMIQUES ET FINANCIERES

Paris, October 17th, 2014

Contact : Valérie Cuisinier
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Re : **DP/2014/1: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging**

Dear Mr Hoogervorst,

The Fédération Française des Sociétés d'Assurances (FFSA) welcomes the opportunity to comment on the IASB's Discussion Paper DP/2014/1: Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging (the "DP"). Our members represent most of the French insurance and reinsurance undertakings, constituting over 90% of the insurance market in France. Accordingly it represents the consensus view of a significant element of the European insurance industry.

We have expressed our repeated support for the use of the business model concept as a basis for developing accounting standards. We believe that financial statement reflecting the business model of entities provide useful information to users on the economic performance of the entities. Therefore, we welcome the objective of the DP to develop an accounting approach reflecting the underlying economics of risk management.

Insurers have open portfolios of insurance contract liabilities that are managed through asset liability management (ALM). Indeed, insurers manage diversified portfolios of financial and non-financial assets, in accordance with their liability profile to meet obligations to policyholders, often on a net exposure basis using hedging instruments.

Appropriate accounting principles for insurance contracts liabilities and underlying assets are essential to provide decision useful information to users about the performance of insurance activities. This also includes reflecting appropriately dynamic risk management practices used by insurers in the financial statements. In this respect, economically valid dynamic risk management practices for insurers should not result in short term earnings volatility that would distort their long term performance.

In practice, the DP has been developed from the perspective of hedging net interest risk in a banking environment. Therefore, it does not address the specificities of macro hedging activities in the insurance business that cover wider risks beyond interest rate risks. The managed exposures are not limited to interest risk and also include hedging risk such as duration, longevity and liquidity.

In addition, the DP has been developed in an amortised cost environment whereas the accounting developments for insurance contracts and financial instruments will result in a current measurement of the insurance contract liabilities and a measurement of underlying assets either at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. These different measurement bases coupled with the presentation of the changes in insurance contracts due to discount rate in OCI would lead to multiple interactions that have to be considered carefully in order to provide a meaningful macro hedge accounting basis for insurers.

As such, we believe that prior to publishing any future exposure draft on macro hedging, the IASB should further explore the specificities of the dynamic risk management practices in the insurance sector and the interactions with the future accounting framework for insurers.

Please feel free to contact me at +33 1 42 47 93 58 to discuss any matters raised in this letter.

Yours sincerely,

Bertrand Labilloy
Director

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