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Executive Director

Mr Hans Hoogervorst
Chairman of the IASB
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London EC4M 6XH
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17 October 2014
EIOPA-14-556/CM/

Comments on Discussion Paper Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

Dear Mr Hoogervorst,

The European Insurance and Occupational Pensions Authority (EIOPA) 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* (DP).

EIOPA was established as part of the European System of Financial Supervisors to support the stability of the financial system, transparency of markets and financial products as well as the protection of policyholders, pension scheme members and beneficiaries within the European Union.

EIOPA fully supports the development of a single set of global, high-quality financial reporting and accounting standards and therefore, appreciates the opportunity to provide feedback to the IASB's development of a dynamic risk management/macro hedging standard.

EIOPA has not addressed the specific questions in the DP, but has provided some general comments in the paragraphs below.

EIOPA notes that although the DP uses more banking related examples, it is the IASB's intention that the future standard would apply to other industries, including the insurance industry. Similarly to banks, insurers are also exposed to risks, including interest rate risk, which they tend to manage dynamically on a portfolio basis taking into account both assets and liabilities. Where these assets, liabilities and hedging instruments are measured under different accounting bases the entity will encounter accounting mismatches, which would prevent

entities from appropriately presenting the economic linkages and reciprocal effects of the balance sheet items' valuation.

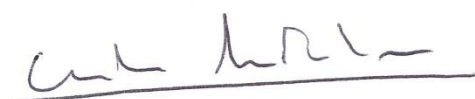
As IFRS 4 phase II has not yet been finalised, it is EIOPA's view that it is too early to determine the accounting mismatches insurers may face in the future. Therefore, the need for insurers to use macro hedge accounting to avoid accounting mismatches has yet to be demonstrated.

At the moment, however, it is difficult to see how the current IFRS 4 phase II proposals would interact with the DP and how the proposal could actually be applied by insurers. In particular, there is a lack of sufficient detail on how the model could be applied to items measured at Fair Value through Other Comprehensive Income (FVOCI). Insurers under the IFRS 4 phase II model are presumably more likely to use FVOCI rather than amortised cost. Consequently, EIOPA believes that it is important that the IASB develops its thinking in this area to enable insurers to assess the impact of a future dynamic risk management/macro hedging standard on their business models.

Whilst EIOPA fully supports companies to use macro hedging as part of an effective risk management system, EIOPA remains to be convinced how macro hedging and how the ideas presented in the DP can be translated into accounting concepts faithfully representing a true and fair view on a company's financial position. More concretely, EIOPA is concerned about the DP's consideration of the equity model book and pipeline transactions, where the specific behavioural aspects of these operations may lead to inconsistencies between the macro hedge accounting model and the IFRS conceptual framework, in particular regarding the definition of assets. Also, EIOPA expects that companies may need additional guidance and safeguards, including eligibility criteria and requirements regarding the documentation of the entity's risk management policies, to ensure a robust and consistent application of the concepts as well as the comparability and verifiability of the financial statements.

If you have any questions or wish to discuss this further with EIOPA, please feel free to contact Ms Sandra Hack at Sandra.Hack@eiopa.europa.eu.

Kind regards,



A handwritten signature in blue ink, appearing to read 'Sandra Hack', is written over a horizontal line.