

International Accounting Standards Board
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DIA Comments on the IASB Exposure Draft on Revenue Recognition

The Danish Insurance Association (DIA) welcomes the opportunity to comment on the IASB Exposure Draft, Revenue from Contracts with Customers (ED). We have not performed a comprehensive evaluation of the ED. In stead we have focused on a few issues, where we believe there is a need to improve the ED.

The boards invite individuals and organizations in IN36 of the ED to comment on whether the proposed requirements are clear and can be applied in a way that effectively communicates to user of financial statements the economic substance of an entity's contracts with customers.

With this comment letter the DIA would like to draw the boards attention to the fact that the proposed onerous test in the ED in some cases will cause a misstatement of the performance of the unit link contracts of an insurance entity.

This include unit link contracts classified as investment contracts and unit link contracts with insurance coverage where the investment component reflecting an account balance has to be unbundled according to the expected new IFRS for insurance contracts. For these contracts the account balance is within the scope of IAS 39/IFRS 9 while the asset management service is a performance obligation within the scope of the ED.

The unit of account of the onerous test

Insurers that collaborate with investment fund managers may form collaborative agreements where the insurance entity receive a fee based on the size of the total investments of the unit link contracts placed in the investment funds administered by that manager.

The fee rate size differ for each investment fund depending on the type of investment assets in the fund and the fee is paid from the investment fund to the insurance entity. The fee income stems directly from the investment of each single unit link customers account balance. Because of this fee income the transaction price of asset management service in the insurance entity's contract with the customer is set lower than it would otherwise be.

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Further, some of the contracts entitles the customer to a portion of this fee income which is paid from the insurance entity as a discount to the customer and hence will according to the ED reduce the transaction price of the performance obligation. This discount is a substantial amount causing these contracts to create a loss when the onerous test is performed at the level of the performance obligation without including the related fee income as proposed in the ED.

The DIA finds it misleading to report a loss at inception for these contracts when the related fee income would actually make these contracts profitable if the fee income was included in the onerous test. The fee income will be recognized in profit or loss over time while the contract is in force similarly to the transaction price (including the discount) of the asset management service performance obligation.

We therefore find that the unit of account for applying the onerous test should correspond with how the entity manages and assess the profitability of the contracts which include the fee income that stems directly from each unit link contract.

The DIA is aware of the explanation in BC206 and BC207 on ED regarding why the boards have rejected changing the unit of account for the onerous test. The DIA will encourage the boards to reconsider the unit of account, because we do not find that modifying the scope of the onerous test as proposed in the ED is a solution to the above described problem that is useful to users of financial statements.

It is possible to estimate the expected fee income from investment funds related to the performance obligation in the contract with the customer in a reasonable way based on the customers investment choice and expected account balance. We do not find this more complicated than the current rules in the ED of separating the performance obligation and determining the transaction price for variable consideration.

The boundaries of asset management

The DIA also has a concern regarding the boundaries of asset management service in unit link contracts in the onerous test and the disclosure requirements.

Paragraph 51 of the ED states:

For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified.

The contract period of a unit link contract – without considering cancellation, renewing or modification – is normally many years comprising the time from contract inception and until the pension scheme is finally paid out. However the experience is, that a lot of the contracts are surrendered by the customer before they are paid out.

It seems misleading if the insurance entity is not allowed to reduce the liability for onerous performance obligations by applying the surrender probability ac-

ording to the entity's experience from similar contracts and thereby eliminating the loss in the last years of the contracts period.

The disclosure requirement regarding performance obligations in paragraphs 118-120 of the ED could also be misleading if the surrender probability is not applied.

Yours sincerely,

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