



## DANISH BANKERS ASSOCIATION

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Dear Mr. Peter Clark,

### **ED 5 - Insurance Contracts**

The Danish Bankers Association has discussed the exposure draft on ED 5 insurance contracts. We have the following comments.

#### **Question 1 – Scope:**

##### **Employers' assets and liabilities under employee benefit plans**

ED 5 do not apply to contracts issued by an insurer to a defined benefit pension plan covering the employees of the insurer, or of another entity consolidated within the same financial statement as the insurer. Instead the rules in IAS 19 shall be applied.

We do not agree on this. We find that ED 5 should apply to contracts with employees that are identical to contracts with third parties and are part of the same statutory rules governing the distribution of profit between policyholders and shareholders equity.

##### **Financial guarantees and insurance against credit risk**

According to ED 5 financial guarantee contracts that provide for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtors fails to make payments when due falls within the definition of insurance contracts. Although we can see the insurance element there are other elements similar to the management of credit risk in banks. We therefore support the arguments in BC 44 for contracts that provide cover against credit risk to be treated according to IAS 39.

Disclosure and potential measurement would differ depending on whether IAS 39 or ED 5 should apply to a financial guarantee provided by banks. Until phase II has been implemented we therefore find it important that IAS 39 applies.

#### **Question 13 - Other comments:**

##### **Elimination of own shares and mortgage bonds**

Neither ED 5 nor IAS 39 (and SIC 16) covers the situation where own issues (equity and/or bonds) are allocated to life insurance policyholders and where the risks and rewards accrues to the policyholders. By analogy

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to IAS 19 own issues that serve as investment assets for the policyholder's savings and where the risk and rewards accrues to the policyholders should not be eliminated.

Page

Own shares and bonds that are not "non-transferable" can according to IAS 19 be Plan Assets in Defined Benefit Plans. This gives an exemption from the general requirement of elimination of own shares in IAS 32 and own bonds in IAS 39.

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### **Effective date and transition**

The standard shall apply from 1 January 2005 with restatement of comparative figures for 2004. The final standard is not expected before spring 2004. Due to the late date of finalisation of the standard it would be very helpful if there were an exception from the requirement of restatement of comparative figures as will be the case in IAS 32 and 39.

Kind regards

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