



To: Ms Françoise Flores
Chairman
EFRAG
35 Square de Meeûs
1000 Brussels

From: Economics & Finance department

Date: 28 May 2014

Reference: ECO-FRG-14-134

Subject: Insurance Europe's comments on Research Paper "The role of the business model in financial statements"

Dear Ms Flores,

We are taking the opportunity to comment on the Research Paper "The role of the business model in financial statements". This letter has been drafted by Insurance Europe, representing 95% of the premium income of the European insurance market.

Insurance Europe greatly appreciates the proactive work of EFRAG to stimulate the debate on the Conceptual Framework of IFRS within Europe. In general, we agree with the observations and conclusions in the Research Paper and we support the efforts from EFRAG to encourage the IASB to include the business model approach in the Conceptual Framework.

The business model underpins effective financial performance and this needs to be recognised in financial reporting and by standard setting when defining particular accounting requirements to achieve faithful presentation of economic performance of reporting entities. Therefore, we believe that the notion of "business model" should be reflected by the IASB in revising its Conceptual Framework. However, we do not believe that the business model must be defined in the Conceptual Framework.

Instead, the Conceptual Framework should require IFRSs to consider relevant business models in an appropriate way, for example to ensure consistency between different standards. Nevertheless, we do not believe that the business model approach should become the character of an overriding principle; thus the IASB should remain responsible to appropriately recognise the fundamental difference between business models of different industries within non-industry specific international financial reporting standards.

The recent controversies when debating the limited amendments' proposals for IFRS 9 Financial Instruments demonstrated how important it is for IASB to take the specific characteristics of the insurance business model into account; in particular the inherent linkage to insurance contracts project (IFRS 4 Phase II).

Asset-liability management (ALM) strategies enable insurance liabilities and guarantees and their related financial and non-financial assets to be managed together according to the insurance contract liability profile to meet obligations to policyholders. This means that it is necessary to present changes in their values consistently, for example in other comprehensive income and/or profit or loss. This is necessary to avoid accounting mismatches and to allow insurers to have meaningful reporting based on its long-term business model.



Regarding the specific example on insurance (Question 3.3.); we believe that it describes different product types rather than different business models. However, we caution against the over-simplified notion of a business model. In particular, we caution against IFRSs that do not recognise fully enough the linkages between different business activities and the variety of ways in which those linkages are managed. To deal with individual components in isolation, separate from the overall ALM strategy, can, with inappropriate prescription, result in measurement and presentation that does not adequately reflect the insurance business model and so may distort information to users about the company's performance.

Please do not hesitate to contact us if you would like to discuss any aspect of our comments in more detail.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Olav Jones", is written over a horizontal line.

Olav Jones
Deputy Director General / Director Economics & Finance

Response to Question 3.3 – Insurance example

In our answer to question 3.3 we also highlight another aspect to this risk – that asset-dependency alone does not determine a business model, because other contractual obligations may vary. Overall, accounting requirements that rest on an oversimplified notion of the business model and so deal with individual components in isolation, separate from the overall ALM strategy, can, with inappropriate prescription particularly of presentation in P&L or OCI, result in measurement and presentation that does not adequately reflect the insurance business model and so may distort information to users about the company's performance.

- a) We believe that the specific example describes different product types rather than different business models. Nevertheless, we think that the analysis may need to be developed much more to help standard setters. The description of entity B includes that the shareholder's return depends on the sharing of asset returns with policyholders. That dependence can differ significantly, because there are different types of contracts with policyholders. This in turn is reflected in different requirements for performance presentation and therefore different recognition in IFRS. To take account of this, there would need to be recognition of the characteristics of the insurance products for entities A.1 and A.2. Further analysis would be necessary as we cannot capture all insurance products and their characteristics in a simplified example.
- b) We support view A. We think that the measurement of entity A's liabilities is independent of the measurement of any assets (whether held by the entity or not) because there is no reference to any assets in the contractual determination of the liability value to the policyholder.
- c) Our answer would not be different.