

DIRECTION DES AFFAIRES FINANCIERES, PRUDENTIELLES ET COMPTABLES

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Mr Jean-Paul Gauzès
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Group
35 Square de Meeûs
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Paris, 9 December 2016

Re: Comments on EFRAG's Draft Letter to the European Commission Regarding Endorsement of Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4

Dear Mr Gauzès,

The French Insurance Federation (FFA) welcomes the opportunity to provide comments on the EFRAG's Draft Letter to the European Commission Regarding Endorsement of Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4 (hereafter "the Amendment"). The FFA is the federation representing the interests of the insurance industry in France. FFA brings together 281 insurance and reinsurance companies operating in France, covering over 99% of the French market.

As stated by the IASB, "the Amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. These concerns include temporary volatility in reported results".

In this regard, we have long advocated the necessity for the temporary exemption to IFRS 9 to provide a "level-playing" field for all insurance activities. We have also demonstrated that the overlay was not addressing all the concerns raised by stakeholders about the different effective dates of both IFRS 9 and the future insurance contracts standard.

We support the Amendments proposed for entities whose activities are predominantly connected with insurance and for investments in such entities when accounted for as associate or joint venture by an investor

The IASB has reviewed the criteria for eligibility so as to broaden the scope of entities whose activities are predominantly connected with insurance at reporting level eligible to the temporary exemption. The IASB has also provided further exemptions for investors applying IFRS 9 by allowing them to retain the IAS 39 accounting used by their associate or joint venture and for first time adopters. We welcome these proposals.

We agree with EFRAG that the conditions set by the European Commission for endorsement are met for the Amendments in relation with these entities.

However the Amendments do not respond to the concerns that have been raised for entities predominantly connected with insurance which are controlled by a group that is not predominantly connected with insurance. These insurers are still not eligible to the temporary exemption from applying IFRS 9. The scope of the Amendments should be broadened in order to ensure a level playing field within the insurance sector.

As noted by EFRAG, the temporary exemption from applying IFRS 9 will allow preparers to avoid recognising the volatility in profit and loss and accounting mismatches that would result from applying IFRS 9 before the forthcoming insurance contracts standard. EFRAG also notes that these preparers will avoid the costs relating to a consecutive implementation of two related accounting standards and that users will be in a position to continue using their existing models.

However, entities predominantly connected with insurance which are controlled by a group that is not predominantly connected with insurance are not eligible to this temporary exemption.

As acknowledged by EFRAG in its Draft Letter to the European Commission on the Amendments, the alternative solution proposed in the Amendments - e.g. to apply the overlay approach – does not address the costs concerns of these insurers.

Therefore, at this stage no technical solution has been found to this issue. These insurers will be put at a disadvantage compared to the stand alone insurers which are eligible to the temporary exemption to IFRS 9 – at a minimum as regards the costs to be supported, as mentioned by EFRAG.

These insurers represent a significant part of the insurance industry, estimated by EFRAG at approximately 20-25% of the total insurance activity among which bank-led groups. In France, this concern is even stronger as bancassurers are major players in the life insurance business. In 2015, the first four bancassurers represent an investment portfolio of EUR 780 billion, technical provisions of EUR 657 billion, a total of premiums earned of EUR 87 billion and the first insurer in France, based on its revenue, is a bancassurer.

More generally, as outlined by EFRAG, the Amendments have been developed to address a very specific, short-term situation, being the misalignment of the effective dates of IFRS 9 and the forthcoming insurance contracts standard. Given the fact that this situation is unique, we believe that there is a need for a specific response.

Entities predominantly connected with insurance which are controlled by a group that is not predominantly connected with insurance should also be eligible to the temporary exemption from IFRS 9. We believe this pragmatic solution will ensure a level playing field within the insurance market, by opening the same options to all insurers.

Should you have any questions on the issues raised in this letter, please feel free to contact us.

Yours sincerely,



Christine Tarral
Deputy Director