



To: Mr Roger Marshall
Acting President
EFRAG Board
35 Square de Meeûs
1000 Brussels

From: Economics & Finance department

Date: 30 November 2015

Reference:

Subject: Insurance Europe comments on EFRAG's "2015 proactive agenda consultation"

Dear Mr Marshall,

We are taking the opportunity to comment on the European Financial Reporting Advisory Group's (EFRAG) "2015 proactive agenda consultation". This letter has been drafted by Insurance Europe, the European insurance and reinsurance federation. Through its 34 member bodies — the national insurance associations — Insurance Europe represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Insurance Europe represents undertakings that account for around 95% of total European premium income. European insurers generate premium income of almost €1 170bn, employ over one million people and invest nearly €9 900bn in the economy. Please find our detailed comments below.

■ **General**

Insurance Europe supports EFRAG's proactive work to assist the IASB in setting high quality standards.

We strongly support that EFRAG continues to stimulate the debate with constituents on IFRS debates that have demonstrated that further thorough consideration is necessary. One example is EFRAG's effort to provide more clarity on the conceptual use of profit or loss versus other comprehensive income, on which we provided a comment letter on 16 November 2015. In addition, we believe it is essential that EFRAG acts as an independent contributor (paragraph 19), especially because of EFRAG's prominent role in the EU endorsement process.

■ **Effectiveness of proactive work**

Proactive work on the major projects, such as insurance contracts (and its interaction with IFRS 9), should be given the highest priority and hence should be given the most resources.

Beyond these major projects, the Conceptual Framework is essential to complete because it provides the foundation on which the IFRS standard setting is based. Once these projects are completed we believe that any resources should be allocated relative to the potential benefits for the greatest amount of stakeholders, as well as taking into account on the likelihood of a conclusion. Furthermore, considering the constraint on resources and the complexity of developing an IFRS we believe it is better to complete a short list of projects in a reasonable time frame compared to an overload of subjects. We therefore support any additional proactive work EFRAG undertakes that aims to support the successful finalization of the major projects first.

In addition, we have the strong view that the main factor to consider when allocating resources (paragraph 55 of the IASB's 2015 agenda consultation paper) should be the relevance of IASB's activities to the IFRS community at large, and in particular the relevance to reporting entities as they are the most affected. Therefore, the IASB should not only consider the importance of issues for users of financial statements when deciding on priority projects. We believe that the importance of particular projects for preparers should be equivalently considered in the decision making process. We appreciate if EFRAG could base its agenda consideration on the same rationale and therefore would like to request EFRAG's support to our proposal on the IASB agenda consultation to amend paragraph 55 (a) as follows:

*"the importance of the matter to those who **prepare and/or** use financial reports;"*

Finally, Insurance Europe does not make a distinction between "discussion papers", "short discussion series papers" or "bulletins" in terms of which tool is more useful. We consider that all these papers aim to stimulate the debate on topics which require further consideration. As such, we recommend that EFRAG could simplify its distinctions between these three categories and refer only to "discussion papers" in the future.

■ **Coordination with the IASB**

Insurance Europe supports the development of IFRS projects as a result of the IASB's agenda consultation.

Overall, we believe that EFRAG can benefit from aligning closely with the IASB's identified projects for developments. While we believe that EFRAG should remain an independent contributor to the IASB projects, as noted above, we do propose that EFRAG liaises as closely as possible with the IASB research activities to avoid duplication of efforts to reach to a global high quality IFRS solution. Nevertheless, the EFRAG activities should focus on those of importance for the European Union with the explicit objective to influence the related IASB standard setting activities.

■ **New EFRAG proactive projects**

Insurance Europe believes that it is more important to finalise the major existing IFRS projects ahead of creating proactive projects on other matters.

We believe that existing projects such as Insurance Contracts "*IFRS 4 Phase II*", the Conceptual Framework, Amortization for goodwill accounting, Financial instruments with characteristic of equity, and Dynamic risk management should be considered as a priority to finalize before engaging with proactive projects on other matters. In addition, we support EFRAG's consideration to include "impairment of equity investments" in its proactive work program.

In line with our comment letter on the IASB's ED "*Conceptual Framework for Financial Reporting*", as submitted on 18 November 2015, we believe that there should be, as a matter of principle, recycling of amounts accumulated in other comprehensive income into profit or loss. Therefore, the existing prohibition of recycling for equities accounted for at fair value through other comprehensive income in IFRS 9 is conceptually problematic and leads to inconsistent and unfaithful results in financial statements. EFRAG's proactive project should explore this issue further and the results should be shared with IASB. We also suggest engaging with other regions to get a global support for the project and its results. A positive and useful experience has been EFRAG's work on the Paper "*Should goodwill still not be amortised? Accounting and Disclosure for Goodwill*" conducted together with the Organismo Italiano di Contabilità (OIC) and the Accounting Standards Board of Japan (ASBJ).

Regarding the "*Dynamic Risk Management*" project we have the view that its urgency from the perspective of the insurance industry is very much dependent on the effective outcome of the insurance contracts project "*IFRS 4 Phase II*" and its material interaction with IFRS 9 "*Financial instruments*". Irrespective of that constraint, we are viewing this project to be of significant importance for those who are concerned.



Furthermore, we would like to explicitly support the EFRAG classification approach as documented in Appendix-A of the EFRAG draft comment letter to the IASB's Agenda consultation. From our perspective, it is very useful to understand the projects that EFRAG deems important and to which degree. Nonetheless, as noted above, we do not necessarily agree with the large amount of the different projects nor the priority levels for projects such as "*Pollutant Pricing Mechanisms*" or "*IFRS 5-Discontinued Operations*" while there are still major projects to complete first.

Lastly, we would like to point out that once IFRS 4 Phase II is finalised the insurance industry will need an extended period of stability in order to implement the required and pervasive changes. For that purpose we believe it is not the appropriate moment to consider new proactive projects of a fundamental nature, such as cash flow statements for the financial services industry. We believe those topics would be better addressed once the new IFRS 4 phase II requirements have been implemented for a number of years.

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", written over a horizontal line.

Olav Jones
Deputy Director General / Director Economics & Finance