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## Invitation to comment on EFRAG's Discussion Paper "Equity Instruments – Impairment and Recycling"

Dear Mr. Gauzès,

We appreciate the opportunity to comment on EFRAG's Discussion Paper "Equity Instruments - Impairment and Recycling" ("DP"). This comment letter summarizes the Allianz Group's position on recycling of gains and losses on derecognition and impairment of equity instruments designated at fair value through other comprehensive income ("FVOCI") in accordance with IFRS 9.

We strongly support EFRAG's efforts to respond to the European Commission's request for technical advice on the accounting treatment of equity instruments from the perspective of long-term investors. In our view, allowing OCI recycling for equity instruments measured at FVOCI would considerably contribute to improving the depiction of the financial performance of long-term investors and thus support the attractiveness of equity instruments as significant asset class for insurance companies and other long-term investors. However, it will be crucial that any amendment to IFRS 9 will be issued by the IASB rather than pursuing solutions on the European level only. Likewise, from an insurance industry perspective it will be very much desirable to align the effective date of such an IFRS 9 amendment with the effective date of IFRS 17.

One of the key targets of our investments in equity instruments is to capture the equity risk premium, thereby generating higher returns compared to fixed income investments. An entity can only benefit from the equity risk premium when investing long-term. Furthermore, equities are real assets that provide a long-term natural inflation hedge for Property & Casualty companies, who are exposed to this risk as it is inherent to their long-tail loss reserves.

As described in the DP, the revised Conceptual Framework emphasises that the statement of profit or loss is the primary source of information about an entity's financial performance for the reporting period.

In the Conceptual Framework, the IASB also acknowledges that in exceptional circumstances income or expenses arising from a change in the current value of an asset are to be included in OCI

when doing so would result in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that period. We believe that FVOCI treatment generally best reflects the financial performance of those equity instruments that are held with a long-term investment horizon, as short-term fluctuations in fair value might generally be compensated over the expected holding period. However, our business model also foresees future sales of equity investments in order to realize the expected long-term capital appreciation. If the results from these sales are not reflected in the statement of profit or loss, the accounting view (returns on equity captured via profit and loss) deviates from the economic view (total return / return on equity) and therefore does not faithfully represent the investor's financial performance. Furthermore, we believe that the inability to capture gains from derecognition in the statement of profit or loss under IFRS 9 will significantly impair the attractiveness of the equity asset class for long-term investors such as insurance companies.

Another point that we would like to stress is that non-recycling under the IFRS 9 FVOCI measurement model also implies that even sustainable and substantial impairments of equity instruments will be recorded outside of P/L. This is conceptually arguable and makes equity instruments at FVOCI a unique asset class as IAS 36 and IFRS 9 (for debt instruments) otherwise consistently require impairments to be booked within P/L.

In addition will the FVOCI option for equity instruments without recycling lead to accounting mismatches (P/L - OCI) for participating insurance business that is accounted for under the general model under IFRS 17 ((modified) building blocks approach) as gains or losses from the asset side will never be reflected in the P/L while the corresponding entries on the liability side actually will.

We acknowledge that an amendment of IFRS 9 that would allow FVOCI measurement with recycling should be accompanied by some form of impairment model. Insofar, we concur with EFRAG's arguments in favour of introducing an impairment model set forth in section 2.12 to 2.16 of the DP. However, at this stage, we have not finally concluded how such an impairment model should be specified in detail. We will be happy to investigate this further and to support a solution to tackle the conceptual and practical challenges that are inherent to such a model. We consider an in-depth assessment of potential impairment concepts to become relevant as soon as it is foreseeable whether and to what extent the current IFRS 9 rules for equity instruments will be amended.

Summarizing the above, we fully support the re-introduction of recycling for equity instruments measured at FVOCI, in particular in order to keep equity instruments an attractive asset class especially for long-term investors such as insurance companies. Given the massive IFRS 9 and IFRS 17-related implementation efforts that the insurance industry is currently facing any amendment to IFRS 9 should be effective latest as of January 1, 2021, i.e., concurrently with the effective date of IFRS 17. However, as a global insurance and asset management group that offers its products and services in over 70 countries worldwide, we attach very high importance to globally consistent and truly international financial reporting standards. It will thus be essential to closely engage and discuss with the IASB and to ultimately address this matter by an IFRS 9 amendment as issued by the IASB. We explicitly do not support any initiatives that will lead to a "Europe-only" solution.

We hope our feedback is helpful for your further deliberations. Please feel free to contact us to discuss any matters raised in this letter.

Yours sincerely,



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