GDV
DIE DEUTSCHEN VERSICHERER

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Date
18.10.2013

EFRAG's Draft Comment Letter
on the IASB's Exposure Draft "ED/2013/7 Insurance Contracts"

Dear Ms Flores

As the German Insurance Association (GDV) we appreciate the opportunity to comment on the Exposure Draft ED/2013/7 "Insurance Contracts", published by the IASB on 20 June 2013. The revised set of proposals, especially the suggested presentation of current fulfilment value changes in other comprehensive income (OCI) when related to discount rate changes is of utmost importance for German insurers. The OCI presentation in IFRS 4 is very appropriate to address the concerns of long-term oriented insurance industry regarding economically inappropriate volatility in performance reporting in the profit or loss statement when applying the Board's general building block approach resulting in current measurement of insurance contracts in the statement of financial position.

<u>In general, the revised ED's proposals are significant progress.</u>

The GDV specifically welcomes developments such as the unlocking principle for the contractual service margin (CSM), the OCI presentation for changes in discount rates on insurance liabilities (and the related introduction of the FVOCI category for debt instruments in IFRS 9). Furthermore, the suggested revision of the transition approach and ensuring an aligned treatment of existing and new business after the transition period is essential to achieve a meaningful performance presentation and appropriate presentation of financial position of long-term oriented German insurers.

For the reasons above we consider the IASB's revised proposals as a significant progress in comparison to the initial ED/2010/8, as issued on 30 July 2010. The revised draft is a good and firm basis to develop a consistently designed standard for insurance contracts. The GDV strongly encourages the IASB to continue its considerable efforts towards finalisation of the high-quality principle-based standard in the near future. With

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regard to the extreme importance of the insurance contracts project the GDV would not support any further significant delays of the project.

The suggested approach for participating contracts is not appropriate.

Nevertheless, there are **some critical requirements** in the revised ED's proposals remaining which require further thorough reconsideration. Although we appreciate the introduction of the 'mirroring *principle*' as a reflection of the existing asset dependency of certain cash flows in the insurance liability valuation, we object the proposed *application*. Especially, we oppose the **inappropriate requirement for decomposition of contractual cash flows**. In addition, we disagree with the suggested treatment of **options and guaranties**, traditionally embedded in long-term insurance contracts in Germany. We are fully committed to closely cooperate with the bodies of EFRAG and IASB to solve the outstanding concerns in an adequate way to achieve workable solutions. Especially, we support the **alternative approach** for participating contracts **as a constructive contribution** developed by the insurance industry.

We are fully supportive of the efforts undertaken by the EFRAG Technical Expert Group (TEG) and its close exchange with the involved insurance accounting working group to reach a consistent common European view on such an important project as 'Insurance Contracts'. The GDV explicitly appreciates the field-test activities of EFRAG/IASB undertaken in cooperation with major European standard setters. The outcome clearly demonstrated that especially the required cash flow bifurcation is overly complex, and in addition not feasible on a non-arbitrary basis.

The GDV supports an alternative approach for participating contracts.

The GDV analysed the alternative approach for participating contracts and strongly supports its principles. The key advantage of the alternative approach is that it suggests removing the proposed narrow scope exception for participating contracts (paragraphs 33 and 34 of the revised ED) without replacement and instead to rely on consistent use of principles of the Board's general measurement model for insurance contracts. For further advantages of the alternative approach and the indispensable changes of the revised ED's proposals needed to implement the alternative proposal we kindly refer to the detailed response to Question 2 in our comment letter towards IASB.

EFRAG's holistic approach would retard the final standard.

The GDV appreciates the conceptual efforts undertaken by the EFRAG TEG when suggesting a holistic approach for a consistent use of OCI presentation in IFRS 4 as presented in the EFRAG's draft comment letter, especially to avoid accounting mismatches. This approach could be further explored. However, we do not support this proposed approach at the current stage of the insurance contracts project especially for the following reasons:

- The suggested approach might contradict the fundamental strategic decision of the IASB not to create industry specific standards. The GDV supports the IASB in this respect.
- The suggested approach would result in a significant delay in finalisation of the insurance contracts project as it would request reopening further standards (e.g. IAS 40). The GDV used to encourage the IASB to continue its considerable efforts towards finalisation of the important standard for insurance contracts in the near future.
- The suggested holistic OCI presentation might not always be the most appropriate one for all insurance products. The GDV advocates for introduction of a supplementary option for profit or loss presentation for discount rate changes when it eliminates or significantly reduces accounting mismatches, similar to the current design of IFRS 9.

Thus, although we appreciate the EFRAG's conception we do not consider it as a pragmatic approach taking into account the current stage of the key projects of the IASB on insurance contracts and financial assets. EFRAG's proposal is more suitable to accompany the conceptual debates as its realisation perspective is a long-term one. The GDV does not favour further significant delays of the insurance contracts project. Although we continue to support the both-side approach for consistent OCI presentation as a concept we acknowledge the final stage of the insurance contracts project and we encourage the Board to address the critical issues of the revised ED (especially the treatment of participating contracts and the treatment of options & guarantees) on a pragmatic basis rather to request for reopening the whole debate on very conceptual level.

Furthermore, the inherent interaction between IFRS 4 and IFRS 9 can also be dealt with on a pragmatic basis where the Board's proposal for limited amendments is a valid basis for an acceptable final solution. In our comment letter (as of 20 March 2013) we have communicated to you which technical adjustments of the limited Board's proposals are necessary to get a reasonable outcome for insurers. For these reasons and being aware of the general significant improvements the IASB achieved in the revised ED we are committed to focus the criticism regarding the revised ED on the most controversial issues. We encourage the TEG members to undertake any efforts necessary to reach a strong support for the alternative approach for participating contracts accounting as an operationally feasible alternative which can be implemented in near future.

For our arguments and detailed comments we refer to our comment letter as submitted to the IASB.

We hope our targeted comments will be helpful to TEG's members in reaching final conclusions on the ED/2013/7. If you would like to discuss our comments in more detail we would be very delighted.

Yours sincerely,

Dr. Wehling	Saeglitz
Member of the Board	Head of Accounting
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