Assuralia
Beroepsvereniging van Verzekeringsondernemingen

Mr. Roger Marshall
Acting Chairman
European Financial Reporting Advisory Group
35 Square de Meeûs
1000 Brussels

R&F 15014

June 22, 2015

Dear Mr. Marshall,

EFRAG's assessment on IFRS 9 *Financial Instruments*

This comment letter has been written by Assuralia, the federation of the Belgian insurance undertakings, representing about 98% of the insurance premiums of Belgian and foreign insurance undertakings in our market.

We welcome the opportunity to comment on EFRAG's assessment on IFRS 9 and on its draft comment letter to the IASB. We concur with the overall conclusion of the EFRAG that IFRS 9 stands for an improvement of the accounting of financial instruments compared to the actual requirements in IAS 39. In this respect, we support a quick implementation of IFRS 9. Areas in which IFRS 9 could have been a better standard for insurance undertakings include the restrictions on an undertakings ability to reclassify financial assets and the accounting for equity instruments. The prohibition on transferring gains or losses to profit or loss on derecognition for equity investments which are measured at fair value through OCI severely limits the use of this option. Whilst the accounting for equity instruments at fair value through profit or loss hinders insurance undertakings to fully reflect their long term business models.

With this letter we would like to draw your attention to an important challenge for Belgian insurance companies that are part of a mixed financial group, with regard to the interaction of the implementation of IFRS 9 and IFRS 4 phase 2. For insurance undertakings both IFRS 9 *Financial Instruments* as IFRS 4 *Insurance Contracts* play an important role in the presentation of their financial position and performance. As both reporting standards are subject to a revision in the foreseeable future, the interactions of the accounting requirements for financial instruments and insurance contracts need to be considered together. This may prove to be very difficult, if not impossible, in practice since the IASB recently recognised that an early adoption of both IFRS 9 and IFRS 4 phase 2 at the same time will be impossible. Indeed, by contrast to IFRS 9 the deliberations on the future standard on insurance contracts are not finalised yet.

In order to solve this problem the EFRAG recommends in its comment letter to the IASB to defer the mandatory effective date of IFRS 9 for insurance undertakings in order to align it with the application date of IFRS 4 phase 2 (i.e. optional deferral). It is argued that a mismatch in timing of the application date of IFRS 9 and the future standard on insurance contracts may create disruptions in the financial reporting and will make the financial reporting of insurance undertakings less understandable for users.

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Beroepsvereniging van verzekeringsondernemingen
Wettig erkende beroepsvereniging

While a deferral of IFRS 9 may be beneficial to insurance undertakings, it may not be a solution for some undertakings that are part of a mixed financial group or a financial conglomerate. Such mixed financial groups that contain both banking and insurance companies represent an important part of the Belgian market. Insurance companies of these groups will need to apply IFRS 9 as from the start in 2018 in order to contribute to a consistent reporting basis for the entire group. This is in line with the general expectation of the IASB to not unnecessary delay the application of IFRS 9 for entities other than insurance undertakings. In this regard Belgian insurance undertakings stress the need for workable transitional measures that allow for an unrestricted reassessment of the business model applied under IFRS 9 once IFRS 4 phase 2 is implemented.

During its session on 22 January 2015 the IASB tentatively confirmed the transition relief proposals in the 2013 exposure draft on the new IFRS 4. Those transition reliefs include:

- At the date of initial application of IFRS 4 phase 2, an entity is permitted to newly designate or to revoke a previous designation of an investment in an equity instrument at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9;
- At the date of initial application of IFRS 4 phase 2, an entity is permitted to newly designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency;
- An entity is required to revoke previous designations of financial assets as measured at fair value through profit or loss if the initial application of IFRS 4 phase 2 eliminates the accounting mismatch that led to that previous designation.

Although the tentatively agreed transitional measures provide a possibility for reassessment of the business model under IFRS 9 when IFRS 4 phase 2 becomes applicable, Belgian insurers fear that these measures may not go far enough. For instance, the proposed measures include restrictions for reclassifications between the amortised cost and fair value through OCI category. In this regard, the IASB should be urged to provide further transition relief to permit or require an entity to reassess its business models at the date of initial application of IFRS 4 phase 2. This reassessment could, for instance, be based on the conditions for assessing the business model in paragraphs 4.1.2. or 4.1.2.A. of IFRS 9 and the facts and circumstances that exist at the date of first application of IFRS 4 phase 2. This would give insurance undertakings that do not opt for a deferral of IFRS 9, upon the implementation of IFRS 4 phase 2, the ability to reassess the classification and measurement of their complete financial instruments portfolio in function of their liabilities.

Therefore we ask the EFRAG to recommend the IASB to permit a full reassessment of the business model under IFRS 9 at the initial application date of the new standard for insurance contracts. This will permit the establishment of a level playing field between insurance undertakings that will apply IFRS 9 as from the start in 2018 and those that opt for a deferral of IFRS 9 until IFRS 4 phase 2 becomes applicable.

Yours faithfully,

Paul Windels,
Director Risk & Finance

René Dhondt,
General Director