European Financial Reporting Advisory Group

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to commentletters@efrag.org by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

~~**EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.**~~

Your details

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

German Insurance Association (GDV)
Gesamtverband der Deutschen Versicherungswirtschaft e. V.
Wilhelmstraße 43 / 43G, 10117 Berlin, Germany

(b) Are you a:

□ Preparer □ User ☒ Other (please specify)

An insurance association.

(c) Please provide a short description of your activity:

The German Insurance Association (GDV) is the federation of private insurers in Germany. Its about 460 member companies offer comprehensive coverage and retirement provisions to private house-holds, trade, industry and public institutions, through 427 million insurance contracts. With an investment portfolio of approx. 1.450 billion EUR, insurers play a leading role for investments, growth and employment in the German economy.

(d) Country where you are located:

Germany

(e) Contact details including e-mail address:

German Insurance Association (GDV)
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EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

In general, we tend to share most of the elements of the EFRAG's initial technical assessment. Nevertheless, there are at least two **material deficiencies** which prevent us to express the positive option about the criteria relevance respective understandability **of IFRS 9** as subject to the current draft endorsement advice. **In addition, IASB tentatively decided to not undertake further efforts to align the mandatory effective date of IFRS 9 with the one of the future insurance contracts standard (IFRS 4 Phase II)**, though the related request of the insurance industry is well justified, substantiated and it has been explicitly backed by many important parties like EFRAG. In detail:

Material deficiencies of IFRS 9 (as issued by the IASB in July 2014 and subject to the endorsement procedure):

- IFRS 9 **prohibits recycling on FVOCI equities** which results in a distorted performance presentation in income statement as realised gains or losses can't be presented in profit or loss (i.e. accounting mismatch in income statement);

- IFRS 9 **does not provide an FVOCI option** for debt instruments being otherwise measured at amortised costs, though a full fair value option is available. The amortised cost category is of significant importance in the growing case of the infrastructural debt financing. However, the future insurance contracts standard will most possibly require a current measurement of insurance liabilities. Therefore, a possibility for a current measurement approach on the asset side of the balance sheet is absolutely necessary to avoid significant distortion regarding presentation of insurers' equity (i.e. accounting mismatch in equity).

In both cases IFRS 9 contains an implicit preference for full fair value accounting (i.e. fair value through profit or loss (FVPL)), which is not in line with our strong support for mixed measurement model in IFRS 9 and also not in line with the tentative IASB's decision to allow for an accounting policy choice regarding the use of OCI presentation in the future insurance contracts standard. In our strong view, the OCI presentation should be equivalently treated as the full fair value approach.

Neglected interaction of IFRS 9 with the future insurance contracts standard (IFRS 4 Phase II) regarding the mandatory effective date

Considering the current stage of tentative IASB's decisions on insurance contracts project (IFRS 4 Phase II), insurers would be forced to start adopting IFRS 9 in isolation ahead of the final insurance contracts standard as the effective date of the final insurance contracts standard will be after 1 January 2018 (taking into account the need for a sufficiently long transition period, i.e. at least three years after the publication of the final standard).

The unaligned adoption of these standards, providing both significant changes to existing accounting practice of insurers, will result in problematic performance presentation (perspective of users of insurers' financial statements) and potentially unnecessary operational cost caused by the need for doubled re-assessments of accounting treatment of financial assets under IFRS 9, i.e. once in isolation and based on unknown and uncertain final outcome of insurance contracts project and then once again based on the final conclusions on it (perspective of insurance undertakings).

This undesirable situation for insurers should be best avoided by the IASB.

Overall assessment of IFRS 9 regarding its EU endorsement

We fully acknowledge and highly appreciate that the amended IFRS 9 (as published by the IASB in July 2014) provides a FVOCI category based on 'hold to collect and sell' business model for simple debt instruments.

Nevertheless, we are not in the position to fully and unqualified share the overall positive EFRAG's assessment regarding the technical criteria for endorsement of IFRS 9. We would clearly prefer to be able to evaluate the EFRAG's tentative assessment based at least on the final IASB's conclusions regarding the insurance contracts project, envisaged by the IASB for the second half of the year 2015 with the final standard planned to be published in 2016.

Being however aware of the requests for a swift implementation of the new impairment provisions for banking industry, and of the improved hedging provisions for general industry **we do not generally oppose the endorsement procedure as such as long insurers are not obliged to apply IFRS 9 in isolation ahead of the future insurance contracts standard**.

Therefore, and to achieve a further significant improvement of IFRS 9, we respectfully request the EFRAG to support our position on the issues identified above, and hence to urge the IASB to address them via a narrow scope amendment, prior to the Post-Implementation Review of IFRS 9. These changes should be addressed by the IASB irrespective the endorsement procedure at the EU level and latest when finalising the insurance contracts project (IFRS 4 Phase II).

Our request is fully in line with the position of the European insurance industry at large as represented by Insurance Europe.

For details how the deferral of IFRS 9 for insures can be made operational, we refer to our views expressed in relation to the paragraph 9 (a).

Finally, we agree with the view regarding the need for a European deferral of mandatory effective date of IFRS 9 for insurers if the IASB would not defer the mandatory effective date of IFRS 9 on a global basis. The 'European approach' is however clearly only a second best solution as a global solution should be provided by the IASB itself. Otherwise global operated groups with subsidiaries outside EU would be in disadvantage.

3 EFRAG's initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Our assessment is on balance, i.e. considering our concerns regarding the implicit preference for full fair value accounting, but also taking into account the new impairment rules (i.e. expected credit losses approach) of IFRS 9, and especially considering the inclusion of FVOCI category based on 'hold to collect and sell' business model for simple debt instruments.

(b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

From our perspective, IFRS 9 provides an implicit but strong preference for full fair value accounting (FVPL), while the current scope of amortised cost category (AC) and the one of the fair value through other comprehensive income category (FVOCI) is very limited. We are concerned that performance reporting related to financial assets will be effectively overshadowed by short-term fair value movements being only in certain cases relevant for users.

In addition, and as a matter of fact, the extensive inclusion of unrealised fair value changes in income statement does not appear to be in accordance with the concept of 'prudence' as defined in Article 6 (1) lit. c (i) of the revised Accounting Directive No 2013/34/EU. The Accounting Directive is the basis to which the Article 3 of the IAS Regulation 1606/2002 refers to.

(c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No specific comments here.

The European public good

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

IFRS 9 compared to IAS 39

5 EFRAG's initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No specific comments here.

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

From the perspective of insurance industry and taking into consideration the general high credit quality of insurers' debt investments, we do not expect to observe a material effect of the new impairment model (i.e. the expected credit losses approach) on financial statements of insurers. Therefore, we believe that the IASB's Post-Implementation Review of IFRS 9 should address the practicability of the expected credit loss approach for such situations once enough real application experience and empirical evidence is available. It does not seem to be proportional to enforce a requirement to conduct expensive expected credit losses calculation if the related outcome is expected to be always immaterial and this has been proven on a valid test sample. One of the potential solutions might be to allow a rebuttable assumption that the amount for the expected credit losses might not need to be determined when there is auditable evidence that no significant deterioration in credit quality since the initial recognition occurred. This exemption might be further limited to high quality debt instruments ("investment grade") only as typically held by insurers.

The lack of convergence with US GAAP

6 EFRAG's initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No specific comments here.

(b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Especially from the perspective of global operating insurance groups it is very disappointing that both boards (IASB and FASB) were not in a position to reach common conclusions on the field of financial instruments accounting, though we fully acknowledge the considerable efforts of the IASB in this regard. We have the strong view that the convergence objective remains a desirable one and therefore the related efforts should continue once the US FASB would be ready to join the process as well.

Impact on investor and issuer behaviour

7 EFRAG's analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

In our view, the completed IFRS 9 (as published by the IASB in July 2014 and subject to the current endorsement procedure) can be assessed as an acceptable compromise.

However, the material deficiencies like the prohibition of recycling on equities measured at fair value through other comprehensive income ('FVOCI equities') and the missing FVOCI option for instruments measured otherwise at amortised costs might significantly impact the appetite of insurers to invest long-term or to engage more broadly in financing of infrastructure projects. These **accounting related disadvantages** for related projects (i.e. regarding debt or equity financing of infrastructural projects) should be addressed by the IASB. On balance, we acknowledge the EFRAG's assessment but we draw different conclusions.

In particular, the matter of fact that also other factors (e.g. search for an appropriate level of yield) might significantly impact insurers' investment decisions shell not overshadow

(**1.**) the need to **allow for recycling on FVOCI equities**, and

(**2.**) the need to **introduce an explicit FVOCI option for debt instruments in the AC category**.

Hence, EFRAG is requested to urge the IASB to remove these negative accounting influences and to address them in a short-term.

In more detail regarding the request (1.)

Particularly in the case of participating business it is difficult to understand that the policyholders' participation is rightly required to be expensed in the income statement, but the underlying gains on FVOCI equites are not. This distorted performance presentation will ultimately lead to the use of further non-GAAP measures which might be seen as undermining the relevance of financial reporting in accordance with IFRS.

However, and as a matter of fact, the conceptual necessity for recycling on FVOCI equities is not only a critical issue for life insurers. Also in the case of P&C business and reinsurance business as well the request for recycling is confirmed and an issue of considerable concern.

Irrespective of this consideration, we have observed that the IASB package of tentative decisions on the ED for the revised Conceptual Framework includes the principle that amounts recognised in other comprehensive income (OCI) are to be recycled if doing so would enhance the relevance of the information included in the statement of profit or loss for that period (paragraph 7.26 of the ED/2015/3 *Conceptual Framework for Financial Reporting*). We strongly agree with that tentative view and urge amending IFRS 9 accordingly via a narrow scope amendment in near future. The presentation of realised capital gain or losses is essential information for users and no valid reasons for no-recycling (referred to in the paragraph 7.27 of the ED/2015/3 *Conceptual Framework for Financial Reporting*) are existent for FVOCI equites.

Furthermore, only mandatory recycling from OCI to profit or loss can ensure a reasonably consistent treatment within the participation business, especially when the full fair value accounting is considered inappropriate as creating an inacceptable level of 'market noise' in income statement of insurers.

Our recommendation

We urge amending IFRS 9 to remove the existing preference for full fair value approach in IFRS 9 via introducing the requested recycling on FVOCI equities. We respectfully ask EFRAG to request the European Commission to urge the IASB to address this issue, at latest when finalising the insurance contracts project. This technical narrow-scoped amendment to IFRS 9 would remove a significant disadvantage for long-term equity financing of e.g. infrastructural projects.

For our detailed arguments regarding the necessity for recycling on FVOCI equities we also refer to our comment letter as submitted in the past to IASB (GDV letter of 17 January 2014) and subsequently to EFRAG (GDV letter of 29 January 2014).

For more detail regarding the request (2.) please consider our comments in paragraph (b) below.

(b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

General remarks:

There is an inherent link between insurance contracts liabilities and underlying items (e.g. financial assets in scope of IFRS 9) backing them. Insures used to follow different asset/liability management strategies, however with the common objective, i.e. to meet the obligations to policyholders. We view that the IASB still needs to verify if this important asset/liability interaction is appropriately reflected at the financial reporting level (especially regarding IFRS 9 and future insurance contracts standard), as this interplay between assets and liabilities is essential element of the unique insurer's business model.

However, and considering the main tentative IASB's decision on the insurance contracts project that the final insurance contracts standard should require a current measurement of insurance liabilities for the purpose of the balance sheet, it is obvious that a similar accounting treatment for underlying items backing insurance liabilities is indispensably necessary. Otherwise significant accounting mismatches in equity or/and profit or loss might arise with the consequence of artificial volatility in performance reporting and/or distorted presentation of financial position (and volatility in equity) of reporting entities.

In more detail regarding the need for the FVOCI option for financial instruments otherwise classified at AC:

Being strongly in favour of the IASB's tentative decision on the optional use of the other comprehensive income (OCI) presentation as an accounting policy choice in the final insurance contracts standard we believe that an equivalent option should be consistently implemented in IFRS 9.

Absence of an explicit FVOCI option for simple debt instruments being otherwise accounted for at amortised costs (AC) would have a negative impact on the ability of insurers to properly present its stable long-term business model and a significant influence their potential involvement, e.g. in infrastructural projects. In particular, portfolios of infrastructural debts might be unavoidably accounted for at amortised costs under IFRS 9. This would be however inconsistent with the tentative decision regarding the mandatory use of current fulfilment value as a current measurement approach for insurance liabilities.

We strongly believe that the current measurement based on the application of full fair value option (optional FVPL approach) would lead to significant and inappropriate volatility in earnings, hence not provide useful information about the underlying performance of insurers and lead to too much focus on short-term and/or market-driven volatile results. In particular, the full fair value accounting is not considered to be useful for long-term infrastructural debts. Therefore, the use of the existing full fair value option is not providing a valid alternative and hence not sufficient.

Our recommendation

We urge amending IFRS 9 accordingly via a narrow scope amendment in near future, latest at the moment of finalisation of the insurance contacts project, to include an explicit FVOCI option for debt instruments in the AC category, based on the same conditions and restrictions as for the existing fair value option. This amendment would remove the existing preference for full fair value approach and ensure an equivalent treatment of FVOCI accounting approach.

In addition, once the final decisions on insurance contracts project are available, there is a need for a thorough reconsideration of consistency of interaction between IFRS 9 and the final insurance contracts standard on that basis.

For our detailed arguments regarding the need for an FVOCI option for debt instruments in AC category in IFRS 9 we refer to our comment letter as submitted in the past to IASB (our letter of 17 January 2014) and subsequently to EFRAG (our letter of 29 January 2014)

We respectfully ask EFRAG to recommend to the European Commission to request the IASB to remove the identified deficiencies in IFRS 9. It would remove two significant disadvantages for long-term equity or debt financing of e.g. infrastructural projects.

Inter-relationship of IFRS 9 with the future insurance contracts standard

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

The German insurance industry strongly agrees with the EFRAG's tentative assessment and fully supports the suggested advice to the European Commission. It is highly appreciated that the deep analysis of the interaction of IFRS 9 *Financial Instruments* with the future insurance contracts standard is an integral part of the Draft Endorsement Advice.

We have the strong view that the final endorsement advice should contain this EFRAG's position and transport the reached conclusion to the European Commission.

From our perspective we would like to highlight in addition that:

- Application of the IFRS 9 deferral to '**pure insurers**' or **groups of 'pure insurers'** is enforceable by a reference to regulatory environment or/and by a reference to those entities already applying IFRS 4 Phase I.
- Application of the IFRS 9 deferral to the specific case of **conglomerates** can be addressed through segmental reporting and additional disclosure requirements. Alternatively an explicit option at the group level should be provided if the groups should not be allowed to mix the application of IAS 39 and IFRS 9 in their consolidated financial statements.

  For the latter case we urge the IASB to provide an explicit possibility for "fresh start" with regard to classification of financial instruments (including the reassessment of business model decisions as recently discussed at IASB level during the Board meeting in January 2015, Agenda Paper 2A "Insurance contracts: Initial application of the new insurance contracts Standard after implementation of IFRS 9 *Financial Instruments*") once the future insurance contracts Standard would get effective.

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

The German insurance industry has the firm view that the deferral of the mandatory effective date of IFRS 9 for insurers should be provided by the IASB as only a global solution can address the practical aspects of globally operating groups of insurance undertakings. And we fully appreciate the work of EFRAG to accompany the IASB in developing the global solution regarding the deferral of IFRS 9 for insurers.

Nevertheless, the interrelation between Insurance contracts accounting and IFRS 9 providing accounting principles for financial instruments is essential and important enough to allow for a European solution only if the IASB would not defer the mandatory effective date of IFRS 9 for insurers.

Therefore, we strongly believe that the EFRAG's final endorsement advice to the European Commission should contain such recommendation. The final endorsement advice should however clearly specify that this European (temporary) solution would be the second best approach only for the case the IASB would ignore the related request for a favoured global approach.

As an additional comment we would like to note that a deferral on a EU-level only can be designed similar to our suggestion above regarding the global solution which we explicitly prefer.

(c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Considering the strong IASB's intention to finalise the insurance contracts project (IFRS 4 Phase II) in the very near future, we suggest that EFRAG should consider a potential need for further reassessment of the interaction between the future insurance contracts Standard and IFRS 9 once the final insurance contracts Standard is available. The identified deficiencies of IFRS 9 (see our comments to paragraph 2 of this draft endorsement advice) should be subject to such review if not addressed by the IASB before.

European carve-out

10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No specific comments are provided.

(b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No specific comments are provided.

Costs and benefits of IFRS 9

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG's initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers

related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

The IASB made at the Board meeting in January 2015 the tentative decision to not further consider the deferral of the mandatory effective date of IFRS 9 for insurers, thus to accept the misaligned application of the both essential Standards. We are highly concerned that the adoption of IFRS 9 in isolation ahead of the final insurance contracts Standard would lead to significant ongoing costs during the 'misalignment' period and effectively cause a need for a **double first application of IFRS 9**. Additional significant costs would arise because of the need to conduct the reassessment of the IFRS 9 application when implementing the future insurance contracts Standard later on. These unnecessary und unjustified double efforts should be best avoided. Also the significant unnecessary costs because of the expected confusion (and the need for extensive education efforts or use of (new) non-GAAP measures) on the user side during the misaligned period needs to be considered and best avoided.

Once the issue of double first application of IFRS 9 for insures is avoided, we would than still agree with EFRAG's assessment regarding the significant ongoing application cost of IFRS 9 from prepares' perspective (e.g. the ongoing application of the new expected credit loss model).

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG's initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

☐ Yes ☒ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

We are currently not in the position to fully agree with EFRAG's assessment regarding the benefits of IFRS 9 application as a valid assessment of the consistency of the interaction with final insurance contracts Standard can only be conducted on the basis of final IASB's decisions on the insurance contracts project (IFRS 4 Phase II) which are still outstanding.

Insurers would be only able to fully confirm the EFRAG's positive assessment of the benefits of the IFRS 9, if a meaningful presentation of financial position and appropriate performance reporting in line with the economics of the insurer's business model is safeguarded.

In addition, it is essential that the already known material deficiencies of IFRS 9 should be addressed to achieve a better reflection of economic reality if applying IFRS 9, hence to improve the relevance and transparency of information provided to users, without being implicitly forced to apply full fair value approach or create and use further non-GAAP measures.

13 EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

□ Yes ☒ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

We don't agree with this assessment if the mandatory effective dates of both IFRS 9 and the future insurance contracts Standard were to be not aligned. For the related request and its reasoning in detail we refer to the joint letter of Insurance Europe and European Insurance CFO Forum of 6 March 2015, supplement by empirical evidence in the note of 17 April 2015.

Furthermore, the already identified material deficiencies of the IFRS 9 are creating additional costs for users and prepares of financial statements as the potential application of the full fair value approach (FVPL) is in many cases not a suitable alternative. Hence, there are certain preconditions to be met to ensure that IFRS 9 would meet the positive cost/benefit assessment from the perspective of insurance industry:

- A possibility for an **aligned implementation** of the future insurance contracts Standard (IFRS 4 Phase II) and IFRS 9 instead of an isolated implementation of IFRS 9 ahead of the final insurance contracts Standard.

  The specific case of conglomerates shouldn't be misused as a hurdle to not provide a solution to insurance industry at large. However, early application should not be prevented in any case and therefore a possibility for a "fresh start" regarding classification of financial instruments (including reassessment of business model decision) still needs to be provided.
- A requirement for **recycling for FVOCI equities** must be introduced.
- An explicit **FVOCI option**, on an equivalent basis as the already existing full fair value option, must be introduced.

These requests for improvements of IFRS 9 are consistent with our positions as expressed in our previous comment letter submitted to IASB and EFRAG (GDV comment letter of 19 March 2013 regarding the IASB's Exposure Draft ED/2012/4 "Classification and Measurement: Limited Amendments to IFRS 9") and also in accordance with the standing joint position of Insurance Europe and European Insurance CFO Forum, representing the view of European insurance industry at large, as expressed in the joint comment letter of 28 March 2013 regarding the IASB's ED/2012/4 "Classification and Measurement: Limited Amendments to IFRS 9".

Overall assessment with respect to the European public good

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

□ Yes ☒ No

If you do not agree, please explain your reasons.

Based on our comments above in paragraph 13 we are not in the position to fully agree with the tentative EFRAG's assessment that the endorsement of IFRS 9 (as issued by the IASB in July 2014) would be conductive to the European public good from the perspective of insurance industry.

On balance, we recommend the EFRAG to advice the European Commission to urge the IASB to address the identified concerns of European insurance industry at large regarding the misaligned mandatory effective dates of IFRS 9 and the future insurance contracts Standard, and also to remove the implicit tendency to full fair value accounting in IFRS 9 via amending the Standard, as requested above.

Other issues for consideration

Request to provide quantitative data on a confidential basis

15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG's field-work policy which is available on the EFRAG website.

Based on the first high level and tentative feedback received from our members we expect the impact of the replacement of the incurred loss mode (IAS 39) by the expected credit loss model (IFRS 9) to be very limited and mostly immaterial for insures, especially due to the characteristics of the insurers' investments portfolios (with overwhelming part being 'investment grade' financial assets).

Regarding the need for reclassifications of financial instruments we expect to observe in future an increase in profit or loss volatility because of the very limited scope of amortised costs (AC) or fair value through other comprehensive income (FVOCI) accounting in IFRS 9, limited to simple debt instruments, compared to the scope of the available for sale (AFS) category in IAS 39. These circumstances will result unavoidable in essentially more assets being accounted for at full fair value (FVPL), and hence out of scope of OCI presentation.

During the potential 'misalignment' period if IFRS 9 has to be applied in isolation ahead of the final insurance contracts Standard (IFRS 4 Phase II), the increased use of FVPL will create a significant accounting mismatch which cannot be suitably addressed under the existing IFRS 4 Phase I, especially in case of existing cost-type measurement approach for insurance liabilities.

For further insight regarding the empirical evidence of the expected increase in profit or loss volatility and regarding the significant dimension of the issue for the transition period if insurers would be forced to apply IFRS 9 in isolation ahead of the final insurance contracts Standard we kindly refer to the quantification results as provided jointly by Insurance Europe and European Insurance CFO Forum and by single insurance undertakings as well. We would appreciate if EFRAG would appropriately acknowledge the considerable efforts which were necessary to provide this substantiated evidence, ahead of the real life application of IFRS 9.

Should endorsement be halted until quantitative data are available?

16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

☐ Yes ☒ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

If insurers would be forced to implement IFRS 9 in isolation ahead of the final insurance contracts Standard (IFRS 4 Phase II), we would be very concerned about the missed opportunity to **verify the consistency of the interaction of the future provisions for insurance contracts accounting and IFRS 9**.

Therefore, we strongly recommend a global approach, to be provided by the IASB, to align the mandatory effective date of IFRS 9 with the future insurance contracts Standard for insurers. Otherwise, the negative implications of significantly distorted performance reporting during the misaligned period for the users and the unnecessary double efforts as a consequence for preparers have to be explicitly considered.

As the second best solution only, we recommend a temporary EU-only deferral of the mandatory effective date of IFRS 9 for insurers.

Early application should be however allowed in both cases (i.e. global or EU-only approach), to address the potential concerns regarding the need for a consistent accounting approach for financial assets within consolidated financial statements of conglomerates. Being on favour of a **temporary deferral of IFRS 9 for insurers** and considering the firm intention of the IASB to finalise the insurance contracts project in near future we recommend an optional deferral of IFRS 9 for 'pure insurers' or 'pure insurance' groups, accompanied by an explicit option for mixed groups to continue to apply IAS 39 or to introduce IFRS 9 for the group at large. This temporary stage might be accompanied by temporary disclosure requirements. However, early application should be accompanied in any case by a possibility for a "fresh start" regarding classification of financial instruments (including reassessment of the business model decisions) once the future insurance contracts Standard gets effective.

Our recommendation

We do not have the view that an empirical assessment is absolutely necessary to underlie the rationale for the requests of the insurance industry as identified in our comments above. However, we also do not support a swift endorsement decision of the European Commission regarding IFRS 9. Instead we recommend EFRAG to advice the Commission to take sufficient time necessary to thoroughly evaluate the final IASB's conclusions on insurance contracts project and to consider its final implications before taking the final endorsement decision on IFRS 9.

On balance: Should the European Commission decide to proceed further with the endorsement of IFRS 9 we strongly request to not require European insurers to apply IFRS 9 before the final insurance contracts Standard is published, to avoid unnecessary burden and double efforts for insurers and confusion by users. We strongly request the IASB to provide a global solution in that respect.

Should early application of IFRS 9 be prohibited?

17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No further specific comments.