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LE DÉLÉGUÉ GÉNÉRAL

30 June 2015

**Subject: FFSA comments on EFRAG's assessments on IFRS 9 Financial Instruments**

Dear Mr Marshall,

The Fédération Française des Sociétés d'Assurances ("FFSA") which represents all types of insurance and reinsurance undertakings, accounting for 90% of the total French market welcomes the opportunity to comment on EFRAG's draft endorsement advice to the European Commission on the EU adoption of IFRS 9 Financial Instruments.

**FFSA supports the endorsement of IFRS 9 provided that for insurers the mandatory effective date of IFRS 9 is aligned with the date of the future insurance contracts standard**

FFSA concurs with the comprehensive assessment performed by EFRAG regarding IFRS 9 in particular regarding the inter-relationship between IFRS 9 and the future insurance contracts standard. As regards the new expected loss impairment model, FFSA agrees with EFRAG that its effects are not expected to be significant for insurers in general and especially for French insurers as a result of the high quality of their portfolios of assets.

Insurers manage assets and liabilities together as illustrated through their asset liability management (ALM) strategies. A consistent measurement of the insurance liabilities and financial assets is fundamental to reflect this overall linkage. As assessed by EFRAG in Appendix 3 "Inter-relationship between IFRS 9 and the future insurance contracts standard", applying IFRS 9 in isolation prior to the new insurance contracts standard will result in increases in accounting mismatches and additional volatility in profit or loss for those insurers – among which French insurers - applying the cost model under the existing IFRS 4. This will obscure the useful information in the financial statements and reduce comparability for users during this interim period.

In addition, preparers will have to undergo major changes in a short period of time, i.e. application of IFRS 9 followed by application of the new insurance contracts standard coupled with reassessment of IFRS 9 classification. This would create confusion for the users and result in unnecessary significant costs and efforts for preparers.

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Mr Roger Marshall
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Therefore FFSA agrees with EFRAG that the European Commission should ask the IASB to align for insurers the mandatory effective date of IFRS 9 with the date of the future insurance contracts standard. However, if the IASB refuses, FFSA considers that EFRAG should ask the European Commission to permit this deferral in Europe for insurers when endorsing IFRS 9.

**FFSA believes that workable solutions can be developed to address the concerns raised by the temporary deferral of IFRS 9 for insurers. Any other solution consisting in changing temporarily the measurement of insurance contracts in IFRS 4 would not be an adequate alternative**

FFSA is convinced that workable solutions can be developed in a short period of time to address the common concerns expressed on the temporary deferral of IFRS 9 for insurers e.g.:

- The scope of the deferral can be properly addressed for example by reference to those entities applying the current IFRS 4 ;
- The need for appropriate information if the temporary deferral of IFRS is applied to insurers within a conglomerate can be addressed through segmental information and additional disclosures, including on intra-conglomerate transactions.

On the contrary, FFSA believes that using the accounting policy options that are available under IFRS 4 (such the use of current market interest rates), expanding the shadow accounting or developing any other amendments to IFRS 4 to reduce accounting mismatches is not an adequate alternative. Without even mentioning the time constraints for the IASB to develop amendments to IFRS 4 and to consult stakeholders in accordance with the IASB's due process - while finalising IFRS 4 phase 2 at the same time - any such modifications will require insurers to implement significant and costly changes to systems for a short period of time. This will also result in complexity and additional costs for users to understand the corresponding changes in financial reporting. Such solutions will introduce additional complexity without any certainty that it will be possible to develop and implement them in time for the first application of IFRS 9.

**FFSA agrees with EFRAG that there are areas in which IFRS 9 could have been a better standard particularly regarding the treatment of equity instruments at fair value through other comprehensive income**

FFSA has expressed for a long time the view that prohibiting recycling for those instruments on the basis that developing an impairment method for those instruments would be complex is not a convincing argument. Realised gains and losses on these assets are shared with policyholders of participating contracts. As such they should be reported in the profit and loss and match the expense corresponding to the policyholders claims and the participation features in the profit and loss. FFSA urges EFRAG to ask the IASB to reconsider the absence of recycling on those equity instruments without expecting the future post implementation review of IFRS 9. It is all the more important for insurers, which are long-term investors, when considered in the light of the decisions of the European Union to support the development of financing for all businesses across Europe.

FFSA considers also that the following requirements of IFRS 9 should be reconsider in the future:

- The more restrictive requirements under IFRS 9 regarding the reclassification of financial assets. In this respect, FFSA regrets that the reclassification requirements that were developed by the IASB during the 2008 financial crisis had not been carried forward in IFRS 9. FFSA believes that it would been useful to help consistency in the accounting treatment that would be applied by entities should such circumstances occur again;

- The measurement of certain types of puttable assets (such as investments in funds) at fair value through profit and loss as they do not meet the definition of equity instruments. FFSA considers that an approach principle-based should be developed for the accounting treatment of these assets to reflect the fact that they expose investors to equity risks;

- The lack of clarification in IFRS 9 that the option opened in IFRS 9 for electing the macro-hedging requirements in IAS 39 can be applied to non-financial items (such as insurance liabilities) in the same manner as non-financial items qualify as hedged items under IFRS 9.

Please do not hesitate to contact us if you would like to discuss any aspect of our comments in more detail.

Yours sincerely,

Pierre Michel