To: Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street – London EC4M 6XH

From: Economics & Finance department

Date: 18 November 2015

Reference: ECO-FRG-15-278

Subject: Insurance Europe comments on the Exposure Draft: *Conceptual Framework for Financial Reporting.*

Dear Mr Hoogervorst,

We are taking the opportunity to comment on the Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* ('the ED')*.* This letter has been drafted by Insurance Europe, representing 95% of the premium income of the European insurance market. Although we provide detailed comments to most of the specific questions in the ED, we would like to highlight certain important issues from the perspective of European insurance industry.

Financial statements can only be meaningful for investors and other users of financial statements if relevant standards allow to reflect how a reporting entity conducts its business.
The notion of "business model" rather than "business activities" is very important for accounting for insurers. Insurers apply different asset-liability management (ALM) strategies in which insurance liabilities and guarantees and their related assets are managed together as a business model according to the insurance contract liability profile to meet obligations towards policyholders.

We support a mixed measurement model for assets and liabilities.
We agree with the suggested mixed measurement approach as a basis for IFRS standard setting because a single measurement basis for all assets and liabilities would neither provide the most relevant information to investors nor to other users of financial statements.

Furthermore, we fully agree with the IASB's assessment which supports that in some cases, more relevant information is provided by using a current value measurement basis in the statement of financial position and a different measurement basis to determine the related income or expenses in the statement of profit or loss.

In addition, we believe that the decisions with regard to a particular measurement basis for assets or liabilities should also consider any linkage that exists between assets and liabilities. This is particularly relevant for insurance companies due to the inherent linkage between insurance liabilities and underlying assets. Thus, it is important to consider the entity's business model for managing assets and /or liabilities in setting a measurement basis and presentation requirements.

The insurance industry agrees that the statement of profit or loss is the primary performance statement; however other comprehensive income presentation is also essential.
We agree that the ED states that the income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period. Nevertheless, the recent IASB decisions for financial instruments accounting (IFRS 9) or on the insurance contracts project (IFRS 4 Phase II) demonstrate the essential importance the other comprehensive income plays in that regard. We fully agree with those conclusions and support the underlying rationale.

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In general, we believe that information presented in profit or loss and in other comprehensive income will, together, provide relevant information to investors and other users of financial statements. However, we believe the IASB should consider further guidance when selecting the measurement to use for a particular item. The IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and other comprehensive income. In addition, it is essential that artificial volatility is avoided because of accounting inconsistencies for assets and liabilities. Therefore, Insurance Europe continues to strongly prefer the optional use of other comprehensive income.

We support that the Conceptual Framework includes a clear principle that items in other comprehensive income should be recycled.
We believe the Conceptual Framework will be strengthened by including a clear principle that items in other comprehensive income should be recycled through profit or loss. In many cases, recycling will occur automatically as other comprehensive income items reverse over time.

The ED proposes a presumption that items included in other comprehensive income in one period will be reclassified into the statement of profit or loss in some future period (recycled), if doing so will enhance the relevance of the information included in the statement of profit or loss for that future period. The ED proposes that this presumption could be rebutted at the standard setting level, for example, if there is no clear basis for identifying the period in which that reclassification would enhance the relevance of the information in the statement of profit or loss. We agree that there may be cases where recycling does not meet the cost-benefit constraint. We agree that such decisions should be dealt clearly within individual IFRSs.

We welcome further analysis and clarity on the meaning of "performance" as the distinction between other comprehensive income and profit or loss needs further consideration.
Insurance Europe supports the IASB's Research Project on "Primary Financial Statements" as we believe the understanding of performance should be further clarified. This is especially relevant for the insurance industry when considering its long-term orientation. We consider that it might not be appropriate just yet to introduce the term "statement(s) of financial performance" until there is further clarity as to the meaning of "performance". We would strongly prefer further guidance on which income and expenses should be reported either in profit or loss or in other comprehensive income. Without further clarification the Conceptual Framework would have missed out on the opportunity to provide greater understanding and comparability. We support the related EFRAG's initiative on this matter and believe it is worthwhile to explore the proposed views that other comprehensive income could include:

a. The effects of using different measurement bases in the statement of financial position and the statement of profit or loss.
b. Transactions where recognising part in profit or loss would distort the reporting of financial performance. E.g. cash flow hedges.

The distinction between equity capital and debt capital should be further clarified.
Insurance Europe considers that the requirements of IAS 32 "Financial instruments: Presentation" are unclear and complex in the distinction between debt and equity. We understood that the IASB is currently assessing this problem as part of its Research Project "Equity characteristics of Financial Instruments" and we encourage the IASB to reach further clarity on the matter.

We support the IASB proposals that a principle-based disclosure framework is needed.
We fully agree that entity-specific information is more useful than 'boilerplate' language and that it is more useful than information that is readily available outside the financial statements. We also agree that duplication of information in different parts of the financial statements is usually unnecessary and makes financial statements less understandable. We believe the IASB disclosure project is a worthwhile topic and advocate the IASB should continuously seek improvements to reduce the disclosure burden for reporting entities.

We support the IASB's view that the existing standards will not automatically change as a result of changes to the Conceptual Framework.
Insurance Europe commented on the 2013 discussion paper with the request that any changes to the Conceptual Framework should not delay the development of the insurance contracts project (IFRS 4 Phase II), nor result in a flow of continuous changes to existing standards if working properly. We therefore fully support the IASB's confirmation in the ED.

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

Yours sincerely,

Olav Jones
Deputy Director General / Director Economics & Finance

Appendix - Detailed response to the Exposure Draft: *Conceptual Framework for Financial Reporting.*

Chapter 1 – the objective of general purpose financial reporting

Question 1 — Proposed changes to Chapters 1 and 2
Do you support the proposals: (a) to give more prominence, within the objective of financial reporting, to the importance of providing information needed to assess management's stewardship of the entity's resources; (b) to reintroduce an explicit reference to the notion of prudence (described as caution when making judgements under conditions of uncertainty) and to state that prudence is important in achieving neutrality; (c) to state explicitly that a faithful representation represents the substance of an economic phenomenon instead of merely representing its legal form; (d) to clarify that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant; and (e) to continue to identify relevance and faithful representation as the two fundamental qualitative characteristics of useful financial information? Why or why not?

Overall, Insurance Europe supports the proposals to Chapters 1 and 2 but we disagree with relabelling "reliability" to "faithful representation". We believe that the fundamental qualitative characteristics should remain "relevance" and "reliability" as part of the original Conceptual Framework. We agree with EFRAG's assessment that if a notion is not well understood by some constituents, it is better to provide additional clarification and to keep the existing notion. We support EFRAG's related views on this matter.

Chapter 3—Financial statements and the reporting entity

Question 2 — Description and boundary of a reporting entity
Do you agree with: (a) the proposed description of a reporting entity in paragraphs 3.11–3.12; and (b) the discussion of the boundary of a reporting entity in paragraphs 3.13–3.25? Why or why not?

No comments.

Chapter 4—The elements of financial statements

Question 3 — Definitions of elements
Do you agree with the proposed definitions of elements (excluding issues relating to the distinction between liabilities and equity): (a) an asset, and the related definition of an economic resource; (b) a liability; (c) equity; (d) income; and (e) expenses? Why or why not? If you disagree with the proposed definitions, what alternative definitions do you suggest and why?

The insurance industry supports the proposed definitions for asset, liability, equity, income and expenses. We particularly support IASB's change to the definition of an economic resource as we questioned the impact of introducing the notion of "capable" for economic resources on assets and liabilities in the 2013 DP, for example, for internally generated intangible assets.

However, we believe that further analysis of the impact of the new definitions is necessary given their significance. This would ensure that the full implications of the revised definitions are understood to avoid unintended consequences. More specifically, we believe further analysis is needed on whether the definition of an asset should retain a notion of "control". We believe that the notion of "control" relates to ownership and could therefore be more suitable as part of the recognition criteria.

Question 4 — Present obligation
Do you agree with the proposed description of a present obligation and the proposed guidance to support that description? Why or why not?

Insurance Europe agrees with the proposed changes to clarify that an entity has a present obligation to transfer an economic resource when it has no practical ability to avoid the transfer and the obligation has arisen from past events. However, we believe further guidance should be added to the notion of "past events" so that there may be no confusion as to when the liability should start to be recorded.

Question 5 — Other guidance on the elements
Do you have any comments on the proposed guidance? Do you believe that additional guidance is needed? If so, please specify what that guidance should include.

Regarding the unit of account (para 4.57 – 4.63) considerations we explicitly support paragraph 4.62 which states that "*the objective in selecting the unit of account is to provide the most useful information that can be obtained at a cost that does not exceed the benefits".* We believe that this objective and its related clarifications are an important element of the Conceptual Framework. Overall, we believe that the unit of account section needs no further guidance because the appropriate level of aggregation should be determined at the standards setting level.

However, we are concerned about the intended relevance of the last sentence in paragraph 4.58: *"the selected unit of account may need to be aggregated or disaggregated for presentation or disclosure purposes."* We disagree if a standard level decision on unit of account for measurement purposes could be overwritten for presentation or disclosure requirements only. This could lead to unmanageable and operational burden. For example, if "portfolio" is identified as the appropriate unit of account for insurance contracts, this decision should be consistently applicable for presentation and disclosure purposes. We would therefore request that the related sentence is either removed or alternatively that further clarification is provided that this sentence should not conflict with the objective in paragraph 4.62.

Chapter 5—Recognition and derecognition

Question 6 — Recognition criteria
Do you agree with the proposed approach to recognition? Why or why not? If you do not agree, what changes do you suggest and why?

No comments.

Question 7 — Derecognition
Do you agree with the proposed discussion of derecognition? Why or why not? If you do not agree, what changes do you suggest and why?

No comments.

Chapter 6—Measurement

Question 8 — Measurement bases Has the IASB: (a) correctly identified the measurement bases that should be described in the *Conceptual Framework*? If not, which measurement bases would you include and why? (b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

Insurance Europe supports that the two main categories (historical cost and current value) are the appropriate measurement bases for the purpose of the revised Conceptual Framework. We would however recommend using the term "amortised cost" instead of "historical cost" as it would better reflect the nature of the different cost-based measurement approaches. The reference to "historical cost" implicitly suggests that cost-based measurement is not subsequently updated and hence loses relevance at the subsequent reporting dates. This obviously is not the case, as cost-based measurement approaches are (at least partially) updated and take into account impairment.

Regarding the proposed subcategories of the current value (i.e. fair value, value in use and fulfilment value), we believe that the Exposure Draft provides a suitable level of detail and a balanced assessment of the application of cost-based measurement versus current value measurement. In particular, we appreciate that the IASB acknowledges at a conceptual level the importance of the fulfilment measurement approach which underpins the development of IFRS4 Phase II.

Question 9 — Factors to consider when selecting a measurement basis Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

Insurance Europe believes that the IASB has identified a number of important factors to consider when selecting a measurement basis for particular items (i.e. an asset or a liability) when developing specific Standards. We fully agree with the conclusion that initial measurement and subsequent measurement cannot be considered separately (paragraph 6.52) and they need to be consistent (paragraph 6.67).

In addition, we support the statements which highlight the possibility of accounting mismatches if a different measurement basis is used for assets and liabilities (paragraph 6.58). This is particularly relevant for insurance companies as they apply different asset-liability management (ALM) strategies in which insurance liabilities and guarantees and their related assets are managed together as a business model according to the insurance contract liability profile to meet obligations towards policyholders.

Question 10 — More than one relevant measurement basis Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

Yes, we agree with the suggested mixed measurement approach as a basis for IFRS standard setting because a single measurement basis for all assets and liabilities would not provide the most relevant information to investors nor to other users of financial statements.

Furthermore, we fully agree with the IASB's assessment which supports that in some cases, more relevant information is provided by using a current value measurement basis in the statement of financial position and a different measurement basis to determine the related income or expenses in the statement of profit or loss.

Furthermore, we also welcome the recognition that in such circumstances the use of the other comprehensive income presentation (paragraph 6.77 (b)) might be of essential importance to ensure transparent information for investors and other users of financial statements.

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Chapter 7—Presentation and disclosure

Question 11 — Objective and scope of financial statements and communication
Do you have any comments on the discussion of the objective and scope of financial statements, and on the use of presentation and disclosure as communication tools?

We fully agree that entity-specific information is more useful than 'boilerplate' language and that it is more useful than information that is readily available outside the financial statements. We also agree that duplication of information in different parts of the financial statements is usually unnecessary and makes financial statements less understandable. We believe the IASB disclosure project is a worthwhile topic and advocate the IASB should continuously seek improvements to reduce the disclosure burden.

However, we disagree that primary financial statements should provide certain information about transactions and events that have occurred after the end of the reporting period (paragraph 7.6). We believe this contradicts the welcome clarification that forward-looking information is generally provided outside the financial statements, for example in the management commentary (paragraphs 7.4. and 7.5). Overall, we propose that paragraph 7.6 is deleted or that the boundaries between financial statements and other elements of financial reports (e.g. management commentary) as targeted in BC7.6 are further clarified.

Question 12 — Description of the statement of profit or loss
Do you support the proposed description of the statement of profit or loss? Why or why not? If you think that the *Conceptual Framework* should provide a definition of profit or loss, please explain why it is necessary and provide your suggestion for that definition.

We agree that the ED states that the income and expenses included in the statement of profit or loss are the primary source of information about an entity's financial performance for the period. Nevertheless, the recent IASB decisions for financial instruments accounting (IFRS 9) or on the insurance contracts project (IFRS 4 Phase II) demonstrate the essential importance the other comprehensive income plays in that regard. And we fully agree with those conclusions and support the underlying rationale.

In general, we believe that information presented in profit or loss and in other comprehensive income will, together, provide relevant information to investors and other users of financial statements. However, we believe the IASB should consider further guidance when selecting the measurement to use for a particular item. The IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and other comprehensive income. We consider that it might not be appropriate just yet to introduce the term "statement(s) of financial performance" until there is further clarity as to the meaning of "performance.

Question 13 — Reporting items of income or expenses in other comprehensive income
Do you agree with the proposals on the use of other comprehensive income? Do you think that they provide useful guidance to the IASB for future decisions about the use of other comprehensive income? Why or why not? If you disagree, what alternative do you suggest and why?

Insurance Europe believes the Exposure Draft does not provide any conceptual basis for the use of the OCI presentation and that further development is needed. Furthermore, the proposed description might create an impression that the OCI presentation is / should be an absolute rare exception. We would be very concerned about such outcome. We have the strong view that the OCI presentation is a valid accounting approach, not only for simple debt instruments. In particular, the OCI presentation, as an accounting policy choice, is supported by the insurance industry at large for the ongoing insurance contracts project (IFRS 4 Phase II). It is also an essential part of IFRS 9 Financial Instruments. Therefore, the existence of OCI presentation must not be disqualified in an inappropriate and biased way in the Conceptual Framework.

Overall, we believe that information presented in profit or loss and in other comprehensive income will, together, provide relevant information to investors and other users of financial statements. However, we believe the IASB should consider further guidance when selecting the measurement to use for a particular item. The IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and other comprehensive income. In addition, it is essential that artificial volatility because of accounting inconsistencies for assets and liabilities is avoided. Therefore, Insurance Europe continues to strongly prefer the optional use of other comprehensive income.

Question 14 — Recycling
Do you agree that the *Conceptual Framework* should include the rebuttable presumption described above? Why or why not? If you disagree, what do you propose instead and why?

We believe the Conceptual Framework will be strengthened by including a clear principle that items in other comprehensive income should be recycled through profit or loss. In many cases, recycling will occur automatically as other comprehensive income items reverse over time. For example, the prohibition on recycling for equity instruments in IFRS 9 means that this approach is in general inconsistent with the nature of the insurance liabilities. This is particularly so for participating contracts, where the investment returns (including gains and losses) are ultimately passed to the policyholder and hence expensed in the income statement.

The ED proposes a presumption that items included in other comprehensive income in one period will be reclassified into the statement of profit or loss in some future period (recycled), if doing so will enhance the relevance of the information included in the statement of profit or loss for that future period. The ED proposes that this presumption could be rebutted at the standard setting level, for example, if there is no clear basis for identifying the period in which that reclassification would enhance the relevance of the information in the statement of profit or loss. We agree that there may be cases where recycling does not meet the cost-benefit constraint. We agree that such decisions should be dealt clearly within individual IFRSs.

Other questions for respondents

Question 15 — Effects of the proposed changes to the Conceptual Framework
Do you agree with the analysis in paragraphs BCE.1–BCE.31? Should the IASB consider any other effects of the proposals in the Exposure Draft?

Overall, Insurance Europe believes that the IASB should take a more holistic approach to addressing accounting issues that could benefit from further consideration, to the extent possible. If the Conceptual Framework is being developed as a stronger fundament on which the IFRSs are based it could take the pressure of other IASB projects such as the distinction between liabilities and equities.

Insurance Europe considers that the requirements of IAS 32 *"Financial instruments: Presentation"* are unclear and complex in the distinction between debt and equity. We understand the IASB is currently assessing this problem as part of its Research Project "Equity characteristics of Financial Instruments" and we encourage the IASB to reach further clarity on the matter, to the extent that this cannot be achieved through the Conceptual Framework.

Furthermore, we support the explicit clarification that the Conceptual Framework is not a Standard and that it does not override any of the provisions in particular Standards (paragraph IN2).

Question 16 — Business activities
Do you agree with the proposed approach to business activities? Why or why not?

We believe that financial statements can only be meaningful for investors and other users of financial statements if relevant standards allow to reflect how a reporting entity conducts its business. The notion of "business model" rather than "business activities" is very important for accounting for insurers because insurers apply different asset-liability management (ALM) strategies in which insurance liabilities and guarantees and their related assets are managed together as a business model according to the insurance contract liability profile to meet obligations towards policyholders.

Finally, we fully agree that entity-specific information is more useful than 'boilerplate' language and that it is more useful than information that is readily available outside the financial statements. We also agree that duplication of information in different parts of the financial statements is usually unnecessary and makes financial statements less understandable. We believe the IASB disclosure project is a worthwhile topic and advocate the IASB should continuously seek improvements to reduce the disclosure burden.

Question 17 — Long-term investment
Do you agree with the IASB's conclusions on long-term investment? Why or why not?

Insurance Europe is overall supportive of the IASB's conclusions. Nevertheless, we believe that a clear and explicit commitment to consider the characteristics of long-term oriented business models like insurance business is necessary when developing or revising particular Standards. Our response to questions 13 and 14 are highly relevant in this regard.

Other comments

Question 18 — Other comments
Do you have comments on any other aspect of the Exposure Draft? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable). As previously noted, the IASB is not requesting comments on all parts of Chapters 1 and 2, on how to distinguish liabilities from equity claims (see Chapter 4) or on Chapter 8.

No comments.