Ladies and Gentlemen,

please find below our feedback on IFRS 4.2 / 9.
Do not hesitate to contact us if you have any questions.
We look forward to hearing from you.

Best regards

Ingo Bauer
Head of Group Accounting & Advisory
R+V Versicherung AG
Raiffeisenplatz 2
65189 Wiesbaden
Germany

Phone: +49 611 533-4827
Fax: +49 611 533-774827
email: Ingo.Bauer@ruv.de

Martin Gottron
Teamleader Group Accounting & Advisory
R+V Versicherung AG
Raiffeisenplatz 2
65189 Wiesbaden
Germany

Phone: +49 611 533-6959
Fax: +49 611 533-776959
email: Martin.Gottron @ruv.de

General Remarks

R+V Versicherung AG, located in Wiesbaden/ Germany, is an important German insurer with financial assets in the amount of approximately 80 billion Euros. At the same time, R+V Versicherung AG is the insurance subsidiary of Germany's largest bank-led financial conglomerate, DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt/ Main. In Europe, there are few financial conglomerates of a comparable size. This is why we feel that our particular situation should be thoroughly reflected in the current debate as we believe that there is too little attention paid to this subject. We are concerned that this could lead to significant disadvantages for R+V.

R+V is the insurance subgroup of the Cooperative Organization and is an integral part of the Cooperative Financial Network. However, within DZ BANK AG's consolidated financial statements insurance is not the predominant activity.

A first comment letter was submitted to EFRAG in June 2015. In this comment letter we highlighted that an exception for insurers who are part of a financial conglomerate is of utmost importance so that these institutions do not have to adopt IFRS 9 as of 1 January 2018. We were pleased to find that EFRAG's endorsement advice on IFRS 9 has addressed our concerns (deferral at legal entity level).

Finally, it has to be ensured that the advantages of the deferral approach are not overwritten by overly detailed or excessively burdensome disclosure requirements, e.g. Draft 37A (c).
Any disclosure requirements must not require insurers applying deferral approach to run two reporting systems in full for the purpose of disclosures in the notes only.

Question 1 – Addressing the concerns raised

We share EFRAG's opinion. As far as conglomerates are concerned, we would like to add that we have learned from EFRAG's July 2015 survey that financial analysts tend to look at segmental reporting and segmental figures for insurance activities and banking activities separately in a financial conglomerate's consolidated IFRS financial statements. Therefore we believe that group-wide uniform accounting principles are not as important as a level playing field within the insurance industry.

Question 2 – Proposing both an overlay approach and a temporary exemption from applying IFRS 9

We share EFRAG's opinion and support offering to complementary optional solutions, i.e. both the temporary exemption and the overlay approach. R+V does not intend to make use of the overlay approach as it is not a suitable measure to address the concerns related to the non-alignment of the mandatory effective dates of IFRS 4 and IFRS 9.

Question to constituents (#19)
In its preliminary outreach, EFRAG has encountered existing, albeit limited, appeal for the overlay approach. Does your company wish to apply the temporary exemption from IFRS 9 or the overlay approach? Please explain the circumstances determining your view.

According to the current IASB proposals R+V would not be eligible for the temporary exemption for the insurance activities within the DZ BANK AG's consolidated IFRS financial statements. This is the case as the predominance criterion is not suitable for insurers being part of a bank-led financial conglomerate.

R+V's only option to remedy the effects of introducing IFRS 9 without IFRS 4.2 would be to use the overlay approach. As of today, R+V does not intend to make use of the overlay approach. Major issues are the cost and complexity of running two accounting engines for IAS 39 and IFRS 9 in parallel. The main driver is, however, that R+V is not willing to invest in and implement an IFRS 9 software solution unless the interdependence with the forthcoming IFRS 4.2 standard (especially as far as participating contracts are concerned) can be thoroughly reflected in our investment decision. We see a great risk that an IFRS 9 software that needs to be implemented by 1 January 2018 might not be (fully) compatible with IFRS 4.2. What we see in the market today is that there are no such software solutions available yet that would meet our requirements.

We believe that the cost-benefit assessment of the overlay approach is negative. As this approach merely deals with the symptoms, i.e. the additional P&L volatility, and not with the cause of the problem, this approach is not an adequate measure to deal with the non-alignment of IFRS 4.2 and IFRS 9 interaction.

There may be insurers that might benefit from the overlay approach; therefore it would be acceptable for us to offer the overlay approach on an optional basis. However, the overlay approach is not a practical solution for R+V.

R+V would like to have the option to defer the application of IFRS 9 just like any other insurer where insurance is the predominant activity.

Question 3 – The overlay approach

We have not made such an assessment as the overlay approach is not a practicable solution for R+V, see above.

Question to constituents (#38 - #43)

We have not made such an assessment as the overlay approach is not a practicable solution for R+V, see above.

Question 4 – The temporary exemption from applying IFRS 9

We share EFRAG's view, especially the idea that this exemption should be available to all entities undertaking insurance activities (level playing field).

Question to constituents (#70 - #78)
Please respond to these questions in light of the preamble to this draft comment letter highlighting that EFRAG is seeking for facts and evidence helping finalise its assessments and proposals.

Widened predominance criterion
70 How restrictive is the assessment of predominance as proposed by the IASB? Please provide quantitative evidence.

As already indicated the IASB's current proposal for a predominance criterion is far too restrictive for bank-led financial conglomerates and delivers not acceptable results.

71 Would the proposal in paragraphs 57 – 64 above achieve the objectives highlighted by EFRAG (i.e. avoid a breach in level playing field in the insurance sector and inclusion of banking activities)? If not, what formula would you recommend for the assessment of predominance, and why?

We believe that EFRAG's proposals might be a suitable solution: Especially mixed groups (#62) being tested below reporting entity level could deliver appropriate results for financial conglomerates. When testing sub-groups (e.g. the R+V Insurance sub-group within the DZ BANK AG financial conglomerate) it is important to keep in mind that not all activities included in the insurance sub-group are insurance activities. We share the opinion that especially (material) banking activities should not benefit from the temporary exception. On the other hand we need to avoid that non-insurance subsidiaries (not banking) included in the insurance sub-group will still benefit from the temporary exemption (e.g. service entities performing other activities). If this was not the case, R+V would be forced to implement IFRS 9 for certain subsidiaries and to account for financial assets according to IAS 39 and IFRS 9 respectively. We believe that IASB has already developed a suitable solution for bank led financial conglomerates (see appendix B5 / B6 ED December 2015).

72 Do you think that the proposal above leads to a predominance criterion that is practical, auditable and comparable? Please explain.

Yes; both nominator and denominator figures can be practically derived from the audited IFRS financial statements and can be audited themselves. However it is important, that the predominance criterion is determined at an appropriate level.

73 Taking into account the widening of the predominance criterion, do you agree that the quantitative threshold should be at a level that is substantially higher than three-quarters of an entity's total liabilities? Please explain.

Yes, we agree. We believe that a threshold at a higher level than three-quarters of an entity's total liabilities is appropriate.

The "regulated entity" criterion

74 Do you agree with the arguments in paragraphs 65– 69 above? If you do not and still believe that the regulated criterion has a role to play, please explain why and how it would work.

Yes, we agree with the rationale. Authorization and supervision are valid indicators at the legal entity level.

With regard to #67 we think that the 'contribution' of the insurer to the consolidated F/S must be at the insurance sub-group level of the insurance entity. Furthermore, our understanding is that non-insurance activities/ entities included in the insurance sub-group are also exempt from applying IFRS 9 as long as their activities are immaterial within the insurance sub-group. We are not sure what is meant by the 'general materiality threshold': Is this to be seen in the sense of IAS 1 or in connection with the proposed (widened) predominance criterion? Introducing IFRS 9 for certain non-insurance subsidiaries would not provide sufficient relief for insurers.

75 Is the regulatory consolidation scope always identical to the IFRS consolidation scope? If not, please explain the difference(s).

No, scopes may differ between IFRS and Solvency II. The reasons are that e.g. institutions providing occupational retirement provisions (pension insurance companies) are not part of the regulatory scope of consolidation, but are insurance undertakings and therefore included in the accounting scope of consolidation. As a result, institutions providing occupational retirement provisions would not benefit from the exemption.

We believe that any assessment of an insurance sub-group should be based on the IFRS accounting scope of consolidation and believe that the regulatory scope of consolidation is not relevant in this context.

General

76 EFRAG currently considers that eligibility for the temporary exemption of IFRS 9 requires that entities/activities issue material insurance contracts within the scope of IFRS 4. Do you agree with this materiality threshold? If not, what do you suggest instead? Please explain.

Yes, we agree with this materiality threshold. We believe that this question is only relevant for the widened predominance criterion. A revisited definition of the ratio would be a major step towards a level playing field for all insurers.

77 Is this condition necessary when relying on the "regulated entity" criterion? What are the circumstances in which an entity would be supervised by an insurance regulator and not issue

insurance contracts within the scope of IFRS 4? What are the effects of changing from IAS 39 to IFRS 9 to those entities?

Looking at the legal entity of the insurance activity we believe that no such threshold is required. Looking, however, at an insurance sub-group we see a difference. It is necessary to assess whether non-insurance activities included in the sub-group (if any) are immaterial and may benefit from the exemption.

We are not aware of any insurance regulated companies that do not issue insurance contracts.

78 If you consider that eligibility for the temporary exemption from applying IFRS 9 should not be based on predominance or on regulation, what principle(s) should be applied, and how would you test these principles?

We agree with the (widened) predominance criterion and the regulatory principle.

Questions to constituents

88 Should an entity assess its predominant activity at the reporting entity level or below the reporting entity level or both? Please explain your view.

Focusing only at the reporting entity level is not an option for insurers that are part of a (bank-led) financial conglomerate. Therefore the assessment is required at the level of the insurance sub-group. As a result there will be mixed accounting throughout the segments for financial assets in the consolidated financial statements (i.e. IAS 39 for the insurance sub-group and IFRS 9 for banking/ rest).

A first assessment could be at the reporting entity level; however, a second assessment might be required below that level in certain cases, e.g. bank-led financial conglomerates. A two-step approach might be a suitable solution to achieve a level playing field.

89 In your view, how can the temporary exemption from applying IFRS 9 below the reporting entity level be determined in a way that ensures the eligibility of relevant entities and allows for comparability between entities? Please explain your view.

Eligible insurance sub-groups can be identified via authorization/ supervision and or their predominant activities.

90 What are the expected costs involved in the implementation of the temporary exemption from applying IFRS 9 at reporting entity level or below reporting entity level (including disclosures)? Please provide evidence, including quantitative evidence to the extent feasible.

For R+V the cost for implementation at reporting entity level are not relevant, as R+V being part of the DZ BANK Group would have to implement IFRS 9 based on this view.

The assessment at legal entity level (or insurance sub-group level) might help to avoid material false investments in incompatible software solutions and avoid accounting mismatches and misinterpretations.

We believe that benefiting from the exemption helps to reduce costs, compared to implementing IFRS 9 as of 1 January 2018 based on the arguments given above.

91 Which alternative for the accounting of transfers as stated in paragraph 82 to 87 above would be most appropriate for the temporary exemption from applying IFRS 9 below reporting entity level? Please explain why.

#85 sounds reasonable as results in no gains or losses. Practical implications need to be assessed. We doubt, however, that the future IFRS 9 software (on the bank's) side will be able to account for such financial instruments that result from intercompany transactions with the insurance subsidiary according to IAS 39 or vice versa.

A feasible solution might be to present the P&L and/ or OCI effects of such transfers in the year of the transaction in the notes to the financial statements. Users and analysts can use this information for their assessments.

We noticed that EFRAG shares the IASB's concerns regarding earnings management in a constellation when different accounting standards are applicable in one set of consolidated financial statements.

R+V, as an insurer that is both subsidiary of a bank and part of the bank's consolidated IFRS financial statements, does not share these concerns. We believe that, based on the reasons given below, earnings management is not a critical issue:

An incentive to undertake intra-group transactions of certain financial assets from a bank to an insurer or vice versa does only exist for financial assets with poor quality and/ or bearing losses.
In such cases there might be certain favorable effects achievable at the level of the separate financial statements. At group level such transactions need to be eliminated anyway, effects could only result from subsequent measurement if different accounting standards were used. On the acquirer's side, however, such a transaction would potentially destroy value from a shareholder's perspective. Such a behavior/ transaction would not be compatible with (German) investment principles for insurers (*Anlagegrundsätze*) and would not result in suitable assets for investments in premium reserve stock (*Sicherungsvermögen*) based on credit standing or liquidity. Furthermore, such transactions might result in damage claims against the insurer's executive board. We doubt that the management of the acquirer's company would be bound by such instructions (if any) from the group parent's executive board.
That being said we believe that earnings management in such a constellation is a rather theoretical discussion. There are e.g. no such transactions within the DZ BANK AG financial conglomerate.
Therefore we think that the point mentioned above should be reflected in the IASB's upcoming discussion on this topic.
We could imagine that the group auditor pays special attention on intra-group transactions of financial assets between segments that use different accounting standards. Any such transactions could be made transparent through the auditor.
All in all we think that the alternatives proposed by EFRAG (#82) have no practical relevance.

Question 5 – Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?

We agree.

Question 6 – Expiry date

We do not think that an expiry date for the temporary exemption is such a good idea unless it is absolutely certain that IFRS 4.2 will be mandatory as of (e.g.) 2021.
In case there might be yet another delay in finalizing IFRS 4.2 all insurers (that have not already implemented IFRS 9) would be forced to either implement IFRS 9 or implement IFRS 9 in combination with the overlay approach.
Taken as a whole and considering all the issues raised in this discussion, it is obvious that this would be no feasible solution.