GDV
DIE DEUTSCHEN VERSICHERER

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Date
18.01.2016

EFRAG's draft comment letter on the IASB's Exposure Draft "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"

Dear Mr Marshall

On behalf of the German Insurance Association (GDV) we welcome the opportunity to comment on EFRAG's draft comment letter on the IASB's Exposure Draft ED/2015/11 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4)", as published by EFRAG on 24 December 2015 for public consultation.

In general, we are supportive of most of the tentative views expressed in the draft comment letter. Especially, we appreciate EFRAG's position that IASB shall address the non-alignment of the mandatory effective dates of the future insurance contracts standard (IFRS 4 Phase II) and IFRS 9 Financial Instruments (Question 1). This view is in line with the long-standing request of the German insurance industry that insurers should not be obliged to implement the revised financial reporting requirements for financial instruments (IFRS 9) until the future insurance contracts standard (IFRS 4 Phase II) is available because of the inherent economic linkage between insurance liabilities and financial assets.

We do not oppose the IASB's proposal regarding the overlay approach and the IASB's further work on it (Question 2). However, we fully share EFRAG's reservations expressed on the cost-benefit assessment of it (Question 3). The provided evidence and insight are sufficient to draw this negative conclusion. Especially, it would require insurers to adopt IFRS 9 in isolation, ahead of IFRS 4 Phase II. Therefore, we have the firm view that the **overlay approach is not an adequate measure** to address the substantiated concerns of the insurance industry regarding the non-alignment of effective dates of IFRS 4 Phase II and IFRS 9.

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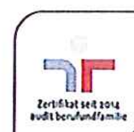


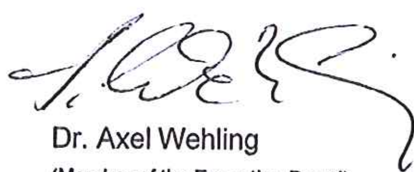
We strongly believe that resources and efforts of the IASB should be best focused on finalisation of the **deferral approach** as it **is rightly supposed to address the cause of the issue** and not only *one* of its consequences. For this reason we highly appreciate that the temporary exemption from applying IFRS 9 is proposed by the IASB in the ED/2015/11 (Question 4). Overall, we assess that the suggested **predominance test**, to be applied **at the reporting entity level**, is generally **a suitable approach** to provide a proper remedy for the concerns of the insurance industry. Nevertheless, we think that some further work is still necessary to fine-tune the design of the proposed approach to ensure that a level playing field for all insurers is safeguarded. We have identified some limited but significant areas for further deliberations: e.g. the design of the predominance test and the level of its application in case of financial conglomerates as insurers active in financial conglomerates should not be excluded from the deferral approach if they pass the eligibility test at their level.

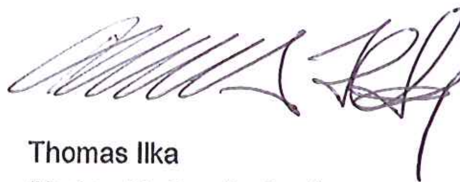
We fully appreciate the efforts and the accompanying activities of EFRAG to support the IASB to provide a proper remedy for the insurance industry being the most effected by the non-alignment of the effective dates of IFRS 4 Phase II and IFRS 9. Therefore, we agree that the existent insurance regulation might also have a helpful role to play in identifying "insurers" which should be enabled to apply the deferral approach. However, it should not be seen as an alternative to IASB's predominance approach.

Finally, we are aware that all concerned reporting entities urgently need clarity on how and when they apply IFRS 9 as a consequence of the ED/2015/11. We recommend EFRAG to urge the IASB to provide this clarity as swiftly as possible. In addition, we ask EFRAG to express in its communication to the IASB a recommendation for the deferral approach to be further developed with the objective to make it eligible to as many relevant entities as possible. A level playing field for all insurers should be the main objective for the IASB's efforts when making the ultimate decisions.

You will find our detailed responses to the specific questions of the IASB in the annex to this letter. If you would like to discuss our comments further, please do not hesitate to contacts us.

Yours sincerely,





Dr. Axel Wehling
(Member of the Executive Board)

Thomas Ilka
(Member of the Executive Board)

Annex

Question 1 – Addressing the concerns raised
Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard: (a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16). (b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraph BC17–BC18). (c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (paragraphs BC19–BC21). The proposals in this Exposure Draft are designed to address these concerns. Do you agree that the IASB should seek to address these concerns? Why or why not?

Yes. We strongly support the IASB to continue to work on suitable measures to address these concerns for the reasons noted above in (a) to (c). We favour a solution which removes the cause of the concerns, i.e. directly addresses the misalignment of the effective dates of the future insurance contracts standard and IFRS 9 and not only (some of) its consequences.

In more detail:

We highly appreciate that the IASB tentatively decided to acknowledge the long-standing concerns of the insurance industry with regard to the need for an alignment of mandatory effective dates of the future insurance contracts standard (IFRS 4 Phase II) and IFRS 9 Financial Instruments. We believe that the IASB is on the right track to ultimately safeguard that insurers must not be obliged to adopt IFRS 9 in isolation, ahead of the implementation of IFRS 4 Phase II.

In addition, we fully acknowledge that the IASB has recognised that it would be inappropriate and not proportional to require insurers to undertake significant but only temporary changes to current insurance contracts

accounting based on existing IFRS 4 Insurance Contracts or its temporary extensions (BC14, BC16). Consequently, we believe that the related statement (a) in the IASB's Snapshot on page 3, third column is in conflict with this acknowledgment/rationale.

Furthermore, we like to remind that the request for the alignment of the related effective dates has been also expressed by the International Association of Insurance Supervisors (IAIS) in its comment letter "Re: Exposure Draft ED/2013/7 Insurance Contracts" of 21 October 2013 (Ref: 13/98):

> "The IAIS strongly believes that the effective dates of IFRS 9 and the insurance contracts standard must be aligned for insurers. The effective dates of both standards should be set to allow sufficient time for implementation. If the effective dates of these two standards cannot be aligned, we encourage the IASB to consider introducing an exception for insurers so as to enable implementation of IFRS 9 and IFRS 4 phase II concurrently." (Pages 10 and 11)

Finally, given the current stage of the EU endorsement procedure on IFRS 9 we strongly recommend that EFRAG encourages the IASB to proceed swiftly with redeliberations after the period of public consultations *and* to provide a deferral solution which is properly designed to be eligible to all relevant insurers for the period foreseen. Our views regarding the suggested sunset clause are provided in our answer to Question 6.

Our comments and suggestions regarding the recommended adjustments to the proposed temporary exemption from applying IFRS 9 (deferral approach) are provided in our detailed answer to Question 4. Our negative assessment of the overlay approach is included in our detailed comments to Question 3.

Question 2 – Proposing both an overlay approach and a temporary exemption from applying IFRS 9
The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4: (a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets that: (i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but (ii) would not have been so measured applying IAS 39 (the 'overlay approach') (see paragraphs BC24–BC25); (b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the 'temporary exemption from applying IFRS 9') (see paragraphs BC26–BC31). Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not? If you consider that only one of the proposed amendments is needed, please explain which and why.

Yes, we agree with the IASB proceeding with both approaches.

Depending on the final outcome of the Board's deliberations, and depending on the specific circumstances of (groups of) reporting entities the usefulness of the overly approach or the applicability of the deferral approach might significantly vary. However, we do not consider the overlay approach as a valid alternative or as an alternative equivalent to the temporary exemption from applying IFRS 9 (deferral approach). Only the deferral approach is rightly addressing the cause of the concerns of the insurance industry while the overlay approach is designed to deal only with *one* of the consequences of the misalignment of the effective dates (paragraphs 16 and 17 of EFRAG draft comment letter).

In more detail:

While we have the explicit view that the **overlay approach is not a suitable measure** to holistically address all the concerns related to the non-alignment of the mandatory effective dates of IFRS 4 Phase II and IFRS 9, we do not oppose the IASB to introduce this specific measure on an optional basis if considered reasonable and necessary to supplement the temporary exception from applying IFRS 9 (deferral approach).

Our detailed negative assessment of the overlay approach is provided in our answer to Question 3.

The German insurance industry strongly prefers the **deferral approach to be further proceeded with**. Therefore, we believe that the efforts of the IASB should be focused on it to ensure that its scope is robust enough and its application leads to reasonable outcome regarding a level playing field for all relevant insurers.

Our detailed comments on the scope and design of the temporary exception from applying IFRS 9 (deferral approach) as proposed by the IASB in the ED/2015/11 are provided in our answer to Question 4.

Question 3 – The overlay approach

Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach.

(a) Paragraphs 35B and BC35–BC43 describe the assets to which the overlay approach can be applied. Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why?

(b) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income applying the overlay approach. Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why?

(c) Do you have any further comments on the overlay approach?

General comments

We have strong reservations regarding the overlay approach as it requires insurers to adopt IFRS 9 in full (BC33) in isolation, ahead of the future Standard for insurance contracts (IFRS 4 Phase II), i.e. the overlay approach accepts the non-alignment of effective dates of the two inherently interrelated standards and addresses only the additional volatility in profit or loss created by the non-alignment of the effective dates (BC32). Therefore, the overlay approach is in its starting assumption fully contrary to the valid and substantiated, long-standing request of the insurance industry. It is also contrary to the request expressed by the IAIS in its comment letter of 21 October 2013 (the quotation in our answer to Question 1).

Therefore, we firmly believe that the **overly approach** can only supplement the deferral approach, but it **cannot be considered as an equivalent alternative** to it. The overlay approach requires insurers to implement IFRS 9 in full in isolation. Hence, it causes additional double efforts and creates sunk costs to insurers. Furthermore, it requires insurers to run two reporting systems for financial assets (i.e. IFRS 9, IAS 39) in parallel. We have the impression that the potential operational efforts and related costs caused by suggested temporary changes to financial reporting systems of reporting entities are significantly underestimated by the IASB (BC25). Therefore, we also disagree with the implicit assumption of the IASB that the overlay approach might by accompanied by certain additional adjustments which could be made to existing insurance contracts accounting based on current IFRS 4 (BC14). We do however acknowledge that the IASB itself recognised the inappropriateness of this idea (BC16).

We respectfully ask EFRAG to convey the explicit message to the IASB that the European insurance industry is largely in favour of the deferral approach, while the IASB seems to prefer the overlay approach. For example, the sunset clause is foreseen only for the deferral approach. As a matter of fact, the likelihood that the overlay approach will be applied by German insurers is not existent. The related qualitative cost-benefit assessment is definitively assessed as being clearly negative.

Our rationale

As a matter of principle, we continue to firmly believe that interrelated financial reporting Standards should not be developed or applied in isolation when they are affecting economically interrelated facts and circumstances. That's why insurance industry is since many years permanently arguing that the inherent economic linkage between insurance liabilities and financial assets backing them should be recognised by the IASB and appropriately reflected in its related standard setting activities. We believe that the proper depiction of this economic interaction is absolutely indispensable, i.e. requirements of the future insurance contracts Standard (IFRS 4 Phase II) and IFRS 9 Financial Instruments must consistently interact with each other and should not lead to artificial volatility because of accounting mismatches in profit or loss, other comprehensive income or in equity. Therefore, also an alignment of the mandatory effective dates of IFRS 4 Phase II and IFRS 9 is critical for all insurers. **The overlay approach disregards this matter of fact entirely.**

We fully share the reservations of EFRAG regarding the overlay approach as expressed in its draft comment letter (paragraphs 35 and 36 of EFRAG draft comment letter). Therefore, it is also of little value to attempt to involve further resources to consider any quantitative cost assessments for the overlay approach, because the underlying basis for this approach is not supported by the German insurers.

In addition, and for reasons of precaution we like to provide the following comments regarding the **negative assessment of the overlay approach**:

- The main reason is that the overlay approach would require insurers to implement IFRS 9 in full in isolation, ahead of the future insurance contracts standard (IFRS 4 Phase II) and irrespective of the related substantiated strong concerns of the insurance industry in this regard.
- We totally agree with the EFRAG's assessment that the overlay approach would force insurers to implement additional IT system architectures for the run of two complete reporting systems for financial instruments in parallel for certain number of years only. In particular, the overlay approach would require reporting entities to fully comply

with both IFRS 9 and IAS 39 and to provide traceable line-by-line reconciliations between them (paragraph 27 of EFRAG draft comment letter) to ensure that the transfer of determined amounts from profit or loss into other comprehensive income and out of the other comprehensive income into profit or loss remains auditable.

In addition, the **application of the overlay approach** would not only affect the financial instruments in the scope of it as largely assumed. It would also require detailed tracking of related effects on deferred tax calculations or on shadow accounting if relevant.

After having consulted our concerned members we have reached the firm view that the potential double efforts on the processes' side result in a **clearly negative cost-benefit assessment** of the overlay approach. The potential requirements of the overlay approach are neither acceptable nor feasible; especially in fast close environment.

And what is even more important: the overlay approach completely neglects the main rationale underlying the request of the insurance industry for the temporary deferral of IFRS 9's application which aims to align it with the proper implementation of the future insurance contracts standard.

- Furthermore, the overlay approach does not avoid **significant double efforts for insurers**, but it introduces additional ones (paragraph 35 of EFRAG draft comment letter, BC53) and, in addition, leads to potentially further confusion of investors and other users of insurers' financial statements. While the transitional additional volatility in profit or loss would be approached and eliminated (at excessive costs) via the transfers into and out of the other comprehensive income, the overlay approach would lead to new additional volatility in equity.

  The additional volatility in equity would arise for example in the case of financial instruments being accounted for at amortised cost under IAS 39 and which would have to be accounted for at fair value through profit or loss under IFRS 9, without the related change in insurance liability accounting.

- While the **deferral approach is the appropriate solution** which addresses rightly the problematic non-alignment of effective dates of IFRS 9 and IFRS 4 Phase II as the source of the main concerns, the overlay approach simply accepts the non-alignment and addresses only *one* of the consequences of the non-alignment (i.e. the volatility in profit or loss during the non-alignment period of time).

- For all these reasons above we **strongly disagree with the alternative views** expressed by some Board members (Mr Finnegan, Mr Mackintosh and Ms Tokar) who believe in the superiority of the overlay approach (AV4) and oppose to the temporary exemption from applying IFRS 9 as suggested by the ED/2015/11.

Our conclusions

Based on our strong reservations against the overlay approach and referring to our disagreement with its core underlying assumption, we urge EFRAG not considering it as a proper remedy for the issues of concern for the insurance industry.

Nevertheless, as noted above, we do not object the optional existence of the overlay approach as such if other interested parties would like to keep it. However, being not aware of any German insurer what would be interested in dealing with operational implementation challenges associated to the overlay approach, we consequently do not provide any specific comments on the scope design or the presentation approach of it (paragraphs 21 to 34 of EFRAG draft comment letter). Those comments are in our view best provided by those constituents who might be in favour of adopting and using the overlay approach.

Irrespective of that view, we suggest deleting the particular statement in paragraph 30 of the EFRAG draft comment letter expressing that "*In general terms, EFRAG does not support unrestricted options in presentation because they create a lack of comparability.*" We assess this statement as unnecessary and also as not being in line with the EFRAG's view expressed in its comment letter of 15 November 2013 towards IASB with regard to the revised ED "Insurance Contracts" (ED/2013/7). In that letter EFRAG expressed support for the view that "*insurers should have the option to make an accounting policy choice at portfolio level to report the impact of changes in the discount rate of the insurance liabilities in the statement of profit or loss or the statement of other comprehensive income*". This unrestricted presentation option in the future insurance contracts standard (IFRS 4 Phase II) is fully supported by us.

Question 4 – The temporary exemption from applying IFRS 9
As described in paragraphs 20A and BC58–BC60 the Exposure Draft proposes that only entities whose predominant activity is issuing contracts within the scope of IFRS 4 can qualify for the temporary exemption from applying IFRS 9. (a) Do you agree that eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity's predominant activity is issuing contracts within the scope of IFRS 4? Why or why not? If not, what do you propose instead and why? As described in paragraphs 20C and BC62–BC66, the Exposure Draft proposes that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities (including liabilities arising from contracts within the scope of IFRS 4). (b) Do you agree that an entity should assess its predominant activity in this way? Why or why not? If you believe predominance should be assessed differently, please describe the approach you would propose and why. Paragraphs BC55–BC57 explain the IASB's proposal that an entity would assess the predominant activity of the reporting entity as a whole (ie assessment at the reporting entity level). (c) Do you agree with the proposal that an entity would assess its predominant activity at the reporting entity level? Why or why not? If not, what do you propose instead and why?

General comments

As a matter of fact, the **deferral approach is the right way to proceed** and we generally agree with the predominance test at the reporting entity level. The German insurance industry is of the strong view that resources of the IASB should be focused on **getting the deferral approach right** as it is supposed to **address the cause of the issue** and not only *one* of the negative consequences of the non-alignment. Therefore, we **strongly support the IASB's approach for the temporary exemption from applying IFRS 9** as proposed in the ED/2015/11.

In general, we agree with the proposed **temporary exemption from applying IFRS 9 as designed in the Exposure Draft as a suitable and proper basis to build on**. The limited areas where we believe further adjustments of the suggested approach are necessary are outlined below.

Our rationale

We view that the **need for the temporary deferral of IFRS 9** for insurers is **sufficiently justified** and **substantiated** regarding its conceptual validity by the rationale provided by the insurance industry so far and accepted by EFRAG in the final endorsement advice on IFRS 9 of 15 September 2015 to the European Commission. Hence, the cost-benefit assessment of the deferral approach can be assumed to be positive for those insurers that can apply it. It is however obviously not the case for insurers active in financial conglomerates if they would be forced to deliver the IFRS 9 data for the group level if being able to apply the deferral at the level below only. An exemption from the reporting level approach to address this case properly is necessary. Our recommendations are provided below.

As a matter of principle, **insurers should not be obliged to provide any artificial quantitative proof if they are "insurers" eligible for the deferral approach** when they are in the scope of the insurance supervision. Hence, highly regulated (groups or sub-groups of) insurers should not be forced to provide any further evidence whether they are indeed 'insurers' or not. However, we respect the IASB's standard setting approach and that the future Standard for insurance contracts will apply to *insurance contracts* and not to regulated insurance undertakings as such. In addition, we fully acknowledge that the IASB is aiming to design the scope of reporting entities eligible for the deferral approach in a globally robust way. Hence, the reference to insurance supervision as a stand-alone criterion might not be always sufficient or pragmatically the superior approach. Furthermore, we appreciate and support the Board's intention to allow for decisions about the eligibility for the deferral to be made at group level for the whole group, while the regulatory approach might better work on a legal entity level.

Therefore, we assess that the IASB's proposed **predominance test**, which is suggested to be applied **at the reporting entity level**, is a **suitable starting point** for further considerations. The consideration of insurance **regulation might however play a relevant supplementary role** in cases in which the outcome of qualitative predominance test is not sufficiently clear to draw a clean conclusion on its own.

Especially, the reference to the existence of insurance supervision might provide certain relief to the perceived restrictiveness of the predominance criterion/ration calculation as suggested by the IASB for the deferral approach. In particular, because the design of the test will be determined long ahead it would be effectively performed (i.e. for reporting periods starting at 1 January 2018). We firmly believe that clarity on when IFRS 9

needs to be adopted by insurers should be provided sufficiently ahead of that date, preferably already in the first half of the year 2016.

What needs still to be fixed to achieve more robustness of the IASB's proposal?

Although we generally support the core design of the IASB's approach (i.e. predominance test at the reporting entity level), we also believe that some further work is still necessary to fine-tune the current design of the proposed temporary exemption from applying IFRS 9 to improve its effectiveness and to provide the urgently needed clarity regarding its applicability. We have identified the following specific dimensions for further Board's efforts and discussion before finalizing the amendments:

- **design of the predominance test**

The intended threshold for the predominance test should not be seen as an absolute bright line. Consequently, we recommend deleting the three-quarters-example in BC65 as contradicting the Board's explicit decision to not provide a particular quantitative threshold. We also note that the BCs are not subject to formal endorsement procedure in the EU which creates issues with regard to its relevance respective its auditability/enforceability. This potential confusion should be best avoided.

In any case, and regarding the Question in paragraph 73 of EFRAG draft comment letter, the ratio threshold should not be further strengthened (against paragraph 61 of EFRAG draft comment letter).

In addition, the ratio definition should be carefully reconsidered regarding its design and rationale (e.g. deferred tax liabilities or pensions liabilities are not specific to the insurance business and should be excluded from the ratio determination).

We also refer to our view regarding the potential need for a supplementary consideration of regulatory supervision for a more holistic approach for the scope determination (paragraph 74 of EFRAG draft comment letter).

- **level of predominance test performance and the deferral approach in case of financial conglomerates**

The case of insurance undertakings being active in financial conglomerates should be addressed by the IASB to ensure a level playing field for all relevant insurers. We respectfully recommend an explicit option to perform the fine-tuned predominance test to the insurance sub-groups below the reporting entity level *if* the outcome at the reporting entity level/group level is negative (paragraph 88 and in difference to paragraph 62 of EFRAG

draft comment letter which seems to indicate a preference for the predominance test to be performed in any case below the reporting entity level).

Consequently, we agree with the tentative conclusion in paragraph 80 of the EFRAG draft comment letter and share the rationale. However, an additional supplementary option at the group level might be necessary to enable financial conglomerates to make their own individual cost-benefit assessments regarding the potential usefulness of the 'roll-up' of the IAS 39 results from the insurance sub-group to the group level (paragraphs 62 and 67 of EFRAG draft comment letter). Hence, concerned groups should retain the possibility to provide their consolidated financial statements based on IFRS 9 or to rely on segment reporting (incl. roll-up).

Furthermore, regarding paragraph 91 of EFRAG draft comment letter and taking into account the very temporary nature of the deferral approach, we do not consider that there is an urgent need for the development of additional accounting requirements for potential 'transfers' of financial assets between different parts within financial conglomerates (against paragraph 85 of the EFRAG draft comment letter). Instead, it should be acknowledged that concerned reporting entities would provide related disclosures on the effects and on the applied accounting policies if material. Therefore, we do not share the related concerns on earnings management opportunities (BC57 (b) and paragraph 82 of EFRAG draft comment letter). In addition, we refer to the existence of IAS 24 Related Party Disclosures which reporting entities have to comply with. Finally, and as a matter of principle, the standard setting activity of IASB should not be based on the misuse assumption.

- **urgent need for clarity ahead of 1 January 2018**

We have the strong view that it is matter of urgency to provide clarity for all insurers as soon as feasible on when they need to comply with IFRS 9 in full. While the **implementation of IFRS 9 requires significant operational efforts and sufficient lead time**, the Exposure Draft is suggesting that the eligible test will be performed "when the entity would otherwise be required to initially apply IFRS 9" (paragraph 20D), i.e. at 1 January 2018. We believe this is impractical. It would be more reasonable to allow insurers to assess as soon as possible whether they are in a position to benefit from the temporary exemption from applying IFRS 9 or not. Therefore, we suggest allowing reporting entities to perform the **binding eligibility test already in 2016** once the IASB's deliberations of its design are finalized and the amendments are formally published by the IASB. We believe that this assessment would provide anyway useful information to supplement the disclosures required by IAS 8, paragraphs 30 and 31.

In general terms, clarity on when and how IFRS 9 needs to be adopted by insurers should be provided by the IASB sufficiently ahead of 1 January 2018, preferably already in the first half of the year 2016. If this would not be the case, i.e. if the predominance test cannot be performed in 2016 on a binding basis, than we respectfully ask EFRAG to recommend to the IASB to provide an explicit clarification that the predominance test should be performed only on the currently applicable IFRS-Standards; i.e. ongoing developments and future amendments to IFRSs should not be required to be considered. The same applies to the performance of potential reassessments if any. Otherwise, an appearance of unintended consequences cannot be excluded (for example as a result of IFRS 16 Leases).

- **annual reassessment of the eligibility for temporary exemption from applying IFRS 9 inappropriate and unnecessary**

Taking into consideration the very temporary nature of the proposed deferral approach, we generally do not believe that it is necessary to require subsequently any annual reassessment (paragraph 20D). Therefore, we also disagree with the related tentative view expressed in paragraph 64 of EFRAG draft comment letter. In particular, we do not share the general statement that changes in corporate structure (always) take as long in its preparation as the assessed necessary lead time (two to three years) before adopting IFRS 9 properly in full. In particular, we question the practical feasibility of the related requirement to apply IFRS 9 from "the beginning of its next annual reporting period". Finally, the IASB's suggested requirement for reassessment has the potential to influence the business policies of insurers which should be avoided.

For these reasons we recommend deleting the related proposals regarding the need for the subsequent reassessment of eligibility for the deferral approach. Hence, we also encourage EFRAG to reconsider the tentative view expressed in paragraph 64 of the EFRAG draft comment letter.

- **additional disclosures should not undermine the profitableness of the temporary exemption from applying IFRS 9**

Finally, it has to be ensured by the IASB that the advantages of the deferral approach and the positive cost-benefit relation are not overwritten by any overly detailed or excessively burdensome disclosure requirements. As a matter of principle, we tend to believe that the existing general requirements in IAS 8, paragraphs 30 and 31, are sufficient. Any additional disclosure requirements must not effectively require insurers applying deferral approach to run two reporting systems in full for the purpose of disclosures in the notes only.

Therefore, the disclosures proposed in the IASB's Exposure Draft should not be further amended. The proposed SPPI-test related disclosures (paragraph 37A (c)) should be reconsidered as potentially significantly contradicting the initially positive cost-benefits objective of the deferral approach.

Why insurers need the temporary exemption from applying IFRS 9?

We **strongly disagree with the alternative views** of some Board members (Mr Finnegan, Mr Mackintosh and Ms Tokar) who question the need for the temporary exemption from applying IFRS 9 (AV1 - AV6).

Therefore, and for reasons of precaution we like to provide the following **additional comments regarding our general support for the IASB's decision to include the temporary exemption from applying IFRS 9** ('deferral approach') for specified entities into the ED/2015/11:

- As expressed continuously in the past by the insurance industry, insurance contracts and underlying financial assets are inherently interrelated and are not managed by insurers in isolation. This economic linkage must be respected by financial reporting requirements. In particular, it must be considered also via the alignment of the mandatory effective dates of IFRS 9 and the future insurance contracts Standard (IFRS 4 Phase II). For banking industry the accounting for financial assets and financial liabilities is aligned already within IFRS 9.

- Requiring insurers to adopt corresponding financial reporting Standards in subsequent succession is therefore not only conceptually failed. It would also result in a significant operational burden for insurers, create double efforts and furthermore result in confusion of investors and other users of insurers' financial statements.

- Consequently, **insurers must not be obliged to adopt IFRS 9 in isolation and before the mandatory effective date of the future IFRS for insurance contracts**.

- We support the initial tentative conclusions of the IASB reached in the Board meeting in September 2015 – and being reflected by the design of the proposals in the ED/2015/11 – as we have the strong preference that the requested **alignment** of the both related Standards should be **best provided by the IASB on a global basis**.

- The tentative Board's decisions demonstrate that the long-standing request of the insurance industry at large and of the IAIS likewise is a valid one and that the recent assessment of EFRAG in its final endorsement advice on IFRS 9 to the European Commission of 15 September 2015 is intended to be finally acknowledged by the IASB.

- The deferral approach is the only solution which addresses the problematic issue of the current non-alignment of effective dates of IFRS 9 and the future insurance contracts Standard in a conceptually proper manner as it removes the cause of the concerns.

- In particular, the deferral approach avoids unnecessary double efforts on the process side for reporting entities (e.g. with regard to setting up projects and their budgeting, developing or buying and customizing robust IT systems, ensuring auditability of processes and accounting results) and therefore respects the cost and resources' constraints under which insurers are currently essentially suffering.

  Therefore, we fully share the EFRAG's tentative observation that "the temporary exemption from applying IFRS 9 is the only approach that eliminates all the difficulties" (paragraph 48 of the draft comment letter).

- The deferral approach provides also clarity, transparency and understandability for investors and other users of insurers' financial statements with regard to the accounting basis used for financial assets.

- We are fully aware that the **key element of the deferral approach is the robust design of its scope** at the global level. We support the IASB's tentative approach to base the scope determination on the predominance test at the reporting entity level, though we believe that it has to be fine-tuned further as explained above.

- As expressed above, we believe that also **insurance sub-groups being part of financial conglomerates should not be put in disadvantage** by any too restrictive scope approach for the deferral of IFRS 9. The benefits of the deferral approach must be safeguarded also for those insurers. A level playing field for all relevant insurers is an essential issue which needs to be ensured by the IASB.

- A robustly designed scope of the deferral approach is important from the perspective of insurance industry and has to be focused on in further thorough discussions during the whole due process of the IASB.

Our conclusions

Based on our assessment we recommend EFRAG to express in its comment letter to IASB a general support for the deferral approach and its design (i.e. predominance test at reporting entity level).

In particular, we agree with the EFRAG's tentative conclusion that "*the temporary exemption from applying IFRS 9 is the only approach that eliminates all the difficulties*" (paragraph 48 of the draft comment letter), i.e. holistically addresses the concerns identified by EFRAG in its final endorsement advice on IFRS 9 to the European Commission.

However, the IASB should also be recommended to develop the proposals further with the objective to make it eligible to all relevant insurers. Our suggestions refer specifically to further work on the design of the predominance test and its application in case of financial conglomerates to ensure a level playing field in the insurance industry.

As a general request we refer to our view that there is an urgent need to provide clarity to all insurers as soon as possible on whether they can benefit from the temporary exemption from applying IFRS 9 to align its implementation with IFRS 4 Phase II.

Question 5 – Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?
As explained in paragraphs BC78–BC81, the Exposure Draft proposes that both the overlay approach and the temporary exemption from applying IFRS 9 would be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied. (a) Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional? Why or why not? (b) Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

a) Yes.

We agree with EFRAG's tentative support for the IASB's proposal that the both suggested approaches should be optional (paragraph 97 of EFRAG draft comment letter). It best reflects the diversity of facts and circumstances in which insurance undertakings are operating.

b) Yes.

We agree with the IASB's proposal that reporting entities should be in a position to stop applying the respective approach from the beginning of any annual reporting period before the new insurance contracts Standard (IFRS 4 Phase II) is applied. It would allow for the individual cost-benefit consideration from the relevant entity-specific perspective.

Question 6 – Expiry date for the temporary exemption from applying IFRS 9?
Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021. Do you agree that the temporary exemption should have an expiry date? Why or why not? Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expiry date would you propose and why?

Our strong and unaltered view is that insurers should not be obliged to implement IFRS 9 in isolation ahead of the future standard for insurance contracts accounting. Therefore, we do not oppose the suggested sunset clause for the deferral approach, provided that the insurance contracts project is finalised by the IASB as currently scheduled. Consequently, we do not oppose the proposal that the temporary exemption from applying IFRS 9 would have an absolute expiry date, provided that the IASB continues to work on a successfully finalisation of the insurance contracts projects (IFRS 4 Phase II) as envisaged.

As of today and considering the currently perceived very advanced stage of the insurance contracts project we believe that 1 January 2021 as proposed expiry date is a reasonable and feasible compromise to provide clary to concerned community. Therefore, we do not share the concerns expressed in the alternative view of Mr Finnegan and Mr Mackintosh (AV7). We support however the EFRAG's tentative view that the expiry date is reassessed when the future insurance contracts standard is finalised. But we oppose that it could be reset at an earlier date (paragraph 103 of EFRAG draft comment letter). We continue to argue that a sufficiently long transition period for proper implementation of IFRS 4 Phase II is indispensable.

Finally, we are fully supportive of the EFRAG's tentative view that "the overlay approach should not be regarded as a solution to a possible delay in the finalisation of the new insurance contracts Standard" (page 2 of the draft comment letter). We share the rationale provide in the related paragraph 104 of the EFRAG draft comment letter likewise.