Svenska Bankföreningen
Swedish Bankers' Association

20/01/2016

EFRAG
35 Square de Meeus
B-1000 Brussels
Belgium

Re: EFRAG Draft Comment Letter on IASB ED/2015/11, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts

Dear Sir/Madam,

The Swedish Bankers' Association appreciates the opportunity to respond to the European Financial Reporting Advisory Group´s (EFRAG´s) Draft Comment Letter on the IASB ED/2015/11, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts (DCL). This letter represents the views of the Swedish Bankers' Association (the Association/We/Our).

Our overall position is that there is a need to grant insurance business a temporary relief in applying IFRS 9 before IFRS 4 is implemented. Key in granting the relief is to make the exception applicable for those entities considering themselves as insurance entities. We consider the ED both to be too restrictive and too generous at the same time. The reason for our conclusion is that we believe that the ED should be applied below the reporting entity level with a roll-up.

Below please find our detailed responses to the questions in the DCL.

Questions for respondents

Question 1 - Addressing the concerns raised

The Association has been in favor of implementing IFRS 9 and IFRS 4 at the same time. Therefore we share the concerns raised by both users and preparers. At the same time, the Association is not in favor of delaying the implementation of IFRS 9 wherefore we believe that a temporary deferral of the implementation of IFRS 9 for insurance activities until the revised insurance standard is implemented is a pragmatic solution that have our support.

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

The Association is supportive of a temporary exemption from applying IFRS 9 for insurance activities. However, the Association does not believe that an overlay approach will achieve the goal of making the financial statements understandable for users if the overlay approach is used. The reason for our concern is that the overlay approach allows a presentation in comprehensive income according to IFRS 9 for financial instruments even though IFRS 4 is unchanged. Furthermore we believe that the overlay approach also fails to address the cost concerns of having to implement IFRS 9 twice, since it could be expected that the classifications of financial instruments will need to be changed once the new insurance contracts standard is being implemented.

Question 3 - The Overlay Approach

We believe that those financial assets and liabilities supporting insurance activities should be recognized according to IAS 39 until a new insurance standard is implemented. Since the overlay approach is similar to an accounting policy choice for each individual instrument, we believe that the proposal fails in producing comparable financial statements with regards to insurance activities between entities.

As previously mentioned, the Association is not supportive the overlay approach. If an overlay approach would be implemented, we would support an approach which required financial assets and liabilities to be presented in comprehensive income in accordance with IAS 39.

Question 4 - The Temporary exemption from applying IFRS 9

Our overall position is that there is a need to grant insurance business a temporary relief in applying IFRS 9 before IFRS 4 is implemented. Key in granting the relief is to make the exception applicable for those entities considering themselves as insurance entities. The Association consider the ED both to be too restrictive and too generous at the same time. The reason for our conclusion is that we believe that the ED should be applied below the reporting entity level with a roll-up.

As the criteria now has been defined, major insurance activities in Europe could be expected to be excluded from applying the deferral approach. At the same time, major banking activities may be exempted from applying IFRS 9 if those activities are included in a large insurance group.

We fail to be supportive of this approach. Financial conglomerates are, in our view, evaluated on a segment level in which banking activities are benchmarked against other banks and insurance activities are benchmarked against other insurance companies.

Furthermore, the Association considers that the definition of insurance activities too narrowly defined. We believe that the definition should encompass all assets and liabilities that could be considered to be linked to an "insurance business activity", regardless if they are recognized in accordance with IFRS 4 or not. E.g. we believe that regulatory capital supporting the insurance activities as well as derivative contracts linked to the insurance business should be captured by the definition. Furthermore, the Association believes that a previous choice to unbundle insurance liabilities should have no effect when defining which entities that should be allowed to use the deferral approach.

We furthermore believe that the definition may lead to unintended cost consequences. As is highlighted in the ED it could be unduly costly to have two separate accounting systems in place. The Association believes that the ED fails to address those cost concerns for those entities that have subsidiaries that need to apply IFRS in their separate accounts or subgroup accounts. E.g. a banking-group being part of a large insurance group may need to apply IFRS 9 in their separate accounts while being exempted from IFRS 9 at group level. The only way to address this cost concern is to apply the deferral approach at a lower level than the reporting entity level with a roll-up.

Finally, the banking regulators have to our knowledge not issued any public statements on this issue, but if they will require separate financial statements and other regulatory reporting to be based on IFRS 9 as from January 1, 2018, banking subsidiaries in insurance groups will face complex reporting requirements if the insurance group fulfils the requirement of predominantly insurance and apply IAS 39 until 2021. We therefore strongly support the idea in the EFRAG Letter to allow the deferral approach below the reporting entity level.

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

The Association believes that the approaches should be optional. That said, the Association is not supportive of an overlay approach as presently defined.

Yes, we 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.

Question 6 - Expiry date for the temporary exemption from applying IFRS 9

We are supportive of a sunset clause of both the overlay and the deferral approaches.

We believe that IFRS 9 could not be deferred forever. Furthermore, a final date will put pressure on both users, preparers and the IASB to work together with the aim of finalising the insurance contracts standard project.

SWEDISH BANKERS' ASSOCIATION

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