Roger Marshall
Acting President of EFRAG
Board
35 Square de Meeûs
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Belgium

008/16

Brussels 18 January 2016

Re: EFRAG letter to IASB on ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts

Dear Mr Marshall,

In response to EFRAG's request for comments on their draft letter to the IASB regarding the Exposure Draft 2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts please see the following consolidated contributions of our members.

Question to constituents (19):
ESBG members with insurance based entities as part of their group are supportive of both the overlay and temporary exemption approaches if they can be applied on an optional basis. They are, however, concerned that they will not be eligible for the temporary exemption from applying IFRS 9 under the stipulations of the current Exposure Draft. Being excluded from this option will cause a significant amount of additional costs and effort for preparers of financial information (i.e. multiple systems will need to be run, one based on IFRS 9 and a second one on IAS 39, a dual implementation of IFRS9 may be required if "fresh start" after IFRS 4 becomes effective, etc.).

Question to constituents (38 – 43):
Our members agree with EFRAG that applying the overlay approach would be costly in terms of the reassessment of the use of the fair value option and of the business models on transition to IFRS 4 phase II, running two accounting systems in parallel and maintaining IAS 39 internal processes and systems for audit and internal control purposes. These costs will be unavoidable if there is not a valid option that allows banking conglomerates with insurance entities a temporary expmption from the application of IFRS 9.

It is the view of our members that the costs will not limit the applicability of overlay as the benefits from neutralising the additional accounting mismatches that arise from the implementation of IFRS 9, in profit or loss, will outweigh the extra costs.

Other than costs, an insurer may not elect to apply the overlay approach as it could create confusion and may be difficult to explain to the users of financial statements if, as a consequence of applying the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard are considered it is reassessed afterwards within IFRS 4 Phase II, effectively resulting in a dual implementation of IFRS 9. Measuring financial assets under IFRS 9 in isolation of

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the linked insurance liabilities may be difficult to understand and explain; in particular because entities may not be able to conclude whether the PL volatility reported in OCI under the overlay approach will remain or not once IFRS 4 Phase II is completed.

The best approach would be to maintain the method in which the eligible financial assets are reported on an individual basis (at the level of the group company with insurance activities). The internal reporting on the consolidated level would need to be changed with reconciliations run between both sets of figures.

Regarding presentation, ESBG members are in favour of optionality in presentation being limited to Alternative A (revenues and expenses related to the eligible financial assets first determined in accordance with IFRS 9 before the adjustment is made). This alternative is more consistent with a full application of IFRS 9 allowing PL line items to be combined between banking and insurance business in a meaningful way. Further explanations about the presentation of the overlay adjustment in OCI should be included in the amendments to IFRS 4.

Questions to constituents (70 – 78):
In our opinion the predominance criterion is so restrictive that industry is divided into two different solutions, with one for pure insurers and another for insurers held by the banking industry, which could introduce competitive distortion between these two groups and an unlevel playing field.

The widened predominance criterion does not fully address our key concerns either. Such an approach will lead to excluding many banking insurers from the scope of the temporary exemption from IFRS 9.

It is the opinion of ESBG members that the "regulated entity" criterion is the only one which could address our key concerns. By providing this option, legal insurance entities could therefore apply the temporary exemption from applying IFRS 9 in both their individual/consolidated financial statements and their parents in the IFRS consolidated accounts. This would also make the transposition of the IASB requirements into local GAAP easier. In Spain, for instance, there are specific accounting rules for the insurance business based on the "regulated entity" concept; accordingly, the set of companies that would be able to postpone the first application of IFRS 9 could be easily identified. It is unlikely that an entity supervised by an insurance regulator is not engaged predominantly in insurance activities and would not issue insurance contracts within the scope of IFRS 4. If the "regulated entity" criterion is employed it would mean that material thresholds would no longer be necessary.

In terms of financial reporting for supervision purposes, insurance companies are accounted for using the equity method within the prudential consolidation scope, while for public financial statements (IFRS accounts) those companies are combined with the parent using the full consolidation method (consists of the aggregation of the assets, liabilities, equity, income and expenses of a similar nature included in their separate financial statements).

Questions to constituents (88 – 91):
It is the opinion of ESBG members that an entity should assess its predominant activity below the reporting entity level in order to ensure that insurers that are part of a conglomerate are also able to elect to use the temporary exemption from IFRS 9 and the conglomerate measure their assets according to IAS 39. Whether an insurer operates standalone of is part of a conglomerate should not

impact the ability to avail of the temporary exemption from applying IFRS 9. Our preference is applying the temporary exemption at the level of the insurance operations within the conglomerate and then rolling-up into group reporting.

Although the conglomerate reporting will combine financial assets measured under IFRS 9 and IAS 39, most likely the assets linked to the banking and insurance business will be reported in separate segments making it easier to explain their performance during a certain time period.

We believe that any solution provided by the IAS B (temporary exemption from applying IFRS 9 or overlay approach) should expire when IFRS 4 Phase II becomes compulsorily effective.

With kind regards,

Chris De Noose,
Managing Director.