Roger Marshall
Acting President of the EFRAG Board
European Financial Reporting Advisory Group
Square de Meeûs 35
1000 Brussels
Belgium

20 January 2016

Re: Comments on EFRAG's draft letter on IASB's Exposure Draft ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts

Dear Mr Marshall:

This letter is from the European Insurance CFO Forum ("CFO Forum"), a body representing the views of 21 of Europe's largest insurance companies and Insurance Europe, which is the European (re)insurance federation whose members are the national insurance associations in 34 countries, representing 95% of the premium income of the European insurance market.

We are very appreciative of EFRAG's efforts to date and for EFRAG's understanding of the insurance industry's significant concerns regarding the impact from the misalignment between the effective dates of IFRS 9 and IFRS 4 Phase 2. We believe EFRAG's draft letter on the IASB's ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts ("Exposure Draft") summarises the significant issues caused by the misalignment of the effective dates between IFRS 9 and IFRS 4 Phase 2.

We agree with EFRAG's assessment on the need for a level playing field which can only be achieved using the temporary exemption from applying IFRS 9 for insurers ("Temporary Exemption") using an appropriate scope. We also agree with EFRAG's assessment on the shortfalls and limited use of the IASB's Overlay Approach. As we have discussed on many occasions, the IASB proposals in the Exposure Draft will lead to many insurance entities being excluded from the scope of the Temporary Exemption. We welcome EFRAG's efforts to widen the scope of the Temporary Exemption. In our response letter to the IASB, we have emphasised the need for a pragmatic principles-based approach which avoids introducing an arbitrary (de facto) bright line.

We have provided comments to EFRAG's "questions to constituents" in Appendix A and our comment letter to the IASB on this Exposure Draft in Appendix B.

We appreciate EFRAG's efforts and its continued support on this matter. We look forward to continuing to work with EFRAG to resolve this important matter.

Yours sincerely,

Nic Nicandrou	Olav Jones
Chair	Deputy Director General
European Insurance CFO Forum	Insurance Europe

Appendix A - Questions to constituents

With regards to EFRAG's questions to constituents, we have the following comments:

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

Paragraph 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.*

Joint comments on Paragraph 19:
We believe that the Exposure Draft's proposed Overlay Approach would not resolve the key issues related to the misalignment of dates and would result in an approach for which the costs significantly exceed the benefits. None of the CFO Forum members envisage using the Overlay Approach option. Furthermore, Insurance Europe is currently only aware of fewer than 5 other companies who prefer to use the Overlay approach; these companies are conglomerates with predominant banking activities that are based in the Belgian and Finnish jurisdictions. As a result, we believe that a deferral of IFRS 9 for insurers continues to be the only effective method to address all the key issues related to the misalignment of dates. For this reason, the Temporary Exemption from applying IFRS 9 ("Temporary Exemption") must be available to all insurers and not only the subset of insurers that would be eligible under the Exposure Draft. In particular, a level playing field can only be achieved using the Temporary Exemption for insurers with an appropriate scope of application (e.g. including all insurance groups regardless of their group structure).

IASB's Question 3 – The Overlay Approach:

Paragraph 38 *– Do you agree with the extra costs identified in paragraph 36? If so, do you consider these costs to be significant? Please explain and provide quantification to the extent possible.*

Paragraph 39 *– Do you consider that the application of the overlay approach will imply that such extra costs as stated in paragraph 36 above will limit its applicability? If so, could you identify and quantify, if possible, which extra costs (on top of implementing IFRS 9) are the most significant?*

Paragraph 40 *– Other than costs, are there any other reasons why an insurer would not elect to apply the overlay approach?*

Paragraph 41 *– If you elect to apply the overlay approach, would you change the way the eligible financial assets are being reported internally?*

Paragraph 42 *– Do you agree that the optionality in presentation should be limited to Alternative A as stated in paragraph 28 above?*

Paragraph 43 *– Referring to paragraph 34 above, do you consider that the amendments to IFRS 4 which may arise due to the ED should include further explanation about the presentation of the overlay adjustment in OCI?*

Joint comments on Paragraphs 38 to 43:
We agree with EFRAG's assessment of the extra costs identified in paragraph 36 which we believe are significant. These extra costs were discussed by one of our members with you at EFRAG's Board meeting of 14 January 2016. At this meeting, the additional systems costs highlighted included:

- IAS 39 and IFRS 9 would have to run in parallel and therefore the chart of account, corresponding sub-assignments and attributes as well as the footnotes for both sets of requirements would have to be available;
- IAS 39 and IFRS 9 ask for different valuation for the assets under discussion. That means entities would need sub-ledgers that have the ability of posting those different valuations;

- Running two parallel systems would prevent entities from implementing the target system architecture because short-term interim solutions have to be set up;
- Additional staff (and therefore additional costs) is necessary to run these processes; and
- Additional control processes have to be implemented to ensure consistency of the data;

The Overlay Approach does not address all our key concerns. In particular, it would require insurers to apply IFRS 9 in 2018 in isolation, ahead of implementation of IFRS 4 Phase 2. Therefore, this approach will still result in multiple significant changes in a short period of time and the need to effectively implement IFRS 9 twice (once in 2018 and once when IFRS 4 Phase 2 is implemented). Therefore, it will be confusing to users. Implementing the Overlay Approach would result in significant incremental operational efforts and costs that would outweigh the limited benefits. In addition the Overlay Approach does not resolve the issue of artificial volatility in shareholders' equity.

However, we are not opposed to retaining the Overlay Approach as an option in addition to the Temporary Exemption.

IASB's Question 4 – The temporary exemption from applying IFRS 9:

Paragraph 70 *– How restrictive is the assessment of predominance as proposed by the IASB? Please provide quantitative evidence.*

Joint comments on Paragraph 70:
The CFO Forum survey that was shared earlier with the EFRAG and the IASB demonstrates that under the current proposals a significant proportion of the CFO Forum members would not qualify for the Temporary Exemption when IFRS 9 becomes effective in 2018. As these CFO Forum members represent major insurance companies (in some cases companies designated as Globally Systemically Important Insurers by the Financial Stability Board would not meet the criteria), it would be difficult for users to understand why these insurers could not qualify as an insurance company for this Temporary Exemption. Therefore the qualifying criteria for the Temporary Exemption must be revised.

Paragraph 71 *– Would the proposal in paragraph 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?*

Joint comments on Paragraph 71:
We believe that predominance should be determined based on principles reflecting a range of qualitative and quantitative factors, including the application of regulation to insurers, which would permit all entities whose predominant activity is insurance to apply the Temporary Exemption. Utilising a principles-based predominance criteria would be consistent with the principles-based nature of IFRS and would accommodate the different balance sheets of insurers around the globe.

Quantitative indicators may be helpful for illustrative purposes, but should not be the key determining factor. Where quantitative examples are used, these should appropriately include all liabilities related to insurance activities, and should not be limited to liabilities in the scope of IFRS 4. Equally it should not include an arbitrary (de facto) bright line.

Given the temporary nature of the Temporary Exemption, we believe that reassessments are unnecessary or should only occur under exceptional circumstances.

Our understanding of paragraph 62 is that the predominance test is first performed at the reporting entity level. If the test is not met, it would also be performed at the subgroup or lower level and rolled-up into the consolidated financial statements. We would agree to this (waterfall) approach.

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

Joint comments on Paragraph 72:
We believe that EFRAG's proposal could be applied in a practical manner which could be auditable and comparable.

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

Joint comments on Paragraph 73:
No, in our response letter to the IASB, we have emphasised the need for a pragmatic principle-based approach which avoids introducing an arbitrary (de facto) bright line.

Paragraph 74 – *Do you agree with the arguments in paragraph 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.*

Joint comments on Paragraph 74:
We believe that the regulated criterion could have a role to play if the application considered issues such as how it would be applied to non-regulated intermediate and ultimate holding companies. There should be a presumption that a regulated insurance entity/(sub)group is engaged in predominantly insurance activities. Applying the regulated entity criterion should also not automatically imply that the assessment is only done at the legal entity level. This assessment should be done first at a group level. If needed, it could then be performed again at lower level(s) (sub-group/entity level).

Paragraph 76 – *EFRAG currently considers that the 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.*

Paragraph 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?*

Paragraph 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?*

Joint comments on Paragraph 76-78:
We understand that EFRAG proposes a choice between two approaches. However, we believe that predominance should be determined based on principles reflecting a range of qualitative and quantitative factors including the application of regulation to insurers. These principles would permit all entities whose predominant activity is insurance to apply the Temporary Exemption. There should be a presumption that a regulated insurance entity/(sub)group is engaged in predominantly insurance activities. Utilising a principles-based predominance criterion would be consistent with the principles-based nature of IFRS and would accommodate the different balance sheets of insurers around the globe. In addition, using such a principles-based approach may also help to deal with some application issues such as the timing of the assessment and which entities within the group would qualify for the Temporary Exemption. If the assessment is to be performed on 1 January 2018 only then an entity that may currently meet the quantitative Temporary Exemption requirements as defined in the Exposure Draft may find that it does not meet those requirements on 1 January 2018 due to normal fluctuations in its business/market conditions. If that entity would then not be allowed to utilise the Temporary Exemption, it would not have sufficient time to appropriately implement IFRS 9 before its annual or even interim reporting is due. Therefore, any requirement to implement IFRS 9 must be known years in advance of when an entity must report under IFRS 9.

Paragraph 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.*

Paragraph 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 that eligibility of relevant entities and allows for comparability between entities? Please explain your view.*

Joint comments on Paragraph 88-89:
We support the IASB's proposed application of a predominance assessment at the reporting entity level for insurance groups. However, a specific solution is also needed to ensure that insurers that are part of a conglomerate (e.g. bancassurers) are able to elect to defer IFRS 9 until IFRS 4 Phase 2 is implemented. Like EFRAG, we believe that comparing "insurer to insurer" is important and is more meaningful than comparing assets related to insurance activities with assets relating to non-insurance (e.g. banking) activities within a conglomerate. As such, whether an insurer operates standalone or is part of a conglomerate should not impact the ability to apply the Temporary Exemption from applying IFRS 9. Applying the Temporary Exemption from applying IFRS 9 at the level of the insurance operations within the conglomerate (i.e. lower than reporting entity level in the specific case of conglomerates) with roll-up into group reporting will be crucial to address this conglomerate issue.

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

Joint comments on Paragraph 90:
The costs for implementation below the reporting entity level are more significant than the costs for implementation at the reporting entity level, as it would require application of two different accounting standards (IAS 39 and IFRS 9) in one set of consolidated financial statements. These additional costs are not significant enough to outweigh the benefits.

As the primary financial reporting objective of insurers is to provide meaningful and understandable financial information both internally and to the users of our financial statements, the use of a level lower than reporting entity level provides more useful information for conglomerates, and therefore the benefits exceed this additional cost for conglomerates. For standalone insurers, a lower level than reporting entity level would not provide such benefits and thus using a lower level for standalone insurers would not result in benefits exceeding costs.

Paragraph 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.*

Joint comments on Paragraph 91:
This is only an issue if applied below the reporting entity level. We agree with EFRAG's proposals in paragraph 85 that could be applied for the accounting of transfers as it would address any potential concerns about earnings management.

Paragraph 105-107 – *First-time adopters.*
Joint comments on Paragraph 105-107:
We share EFRAG's concern about the IASB's proposal to exclude first-time adopters from using the Temporary Exemption and Overlay Approach.

We provided the IASB with the following comment on first-time adopters:

> *While we agree with the optional nature of applying the Temporary Exemption, we are concerned that first time adopters of IFRS will not be permitted to apply the Temporary Exemption. We believe that a first-time adopter such as described in paragraph 3(c) of IFRS 1 (prepared a reporting package in accordance with IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IFRS 1) should be able to elect to apply either the Temporary Exemption or the Overlay Approach.*
>
> *We do not see any principles that would support excluding first time adopters from applying the Temporary Exemption. Even if those entities do not publish their financial statements in accordance with IFRS, they may have already set up their IT systems in*

order to report for group reporting purposes (for example a subsidiary that reports externally on local GAAP, but internally on IFRS to its parent). Therefore, we believe that the Temporary Exemption should be extended to first-time adopters to ensure a principles-based approach and prevent additional costs and duplication of procedures.

Appendix B – Joint CFO Forum and Insurance Europe comment letter on the IASB's Exposure Draft, "ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts"

CFO FORUM insurance europe

Mr Hans Hoogervorst
IFRS Foundation
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London EC4M 6XH
United Kingdom

20 January 2016

Comments on IASB Exposure Draft on Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ("Exposure Draft")

Dear Mr Hoogervorst,

This letter is from the European Insurance CFO Forum ("CFO Forum"), a body representing the views of 21 of Europe's largest insurance companies and Insurance Europe, which is the European (re)insurance federation whose members are the national insurance associations in 34 countries, representing 95% of the premium income of the European insurance market.

We appreciate the IASB's acknowledgement in the current and previous Exposure Drafts of the significant issues faced by insurers due to the misalignment of the effective dates for IFRS 9 and the future standard for insurance contracts ("IFRS 4 Phase 2"). The CFO Forum and Insurance Europe have repeatedly stressed the need to resolve this misalignment for the following reasons:

- Adopting IFRS 9 before IFRS 4 Phase 2 will result in additional accounting mismatches.
- If IFRS 9 were to be implemented before IFRS 4 Phase 2, the classification must be reassessed with IFRS 4 Phase 2, effectively resulting in a dual implementation of IFRS 9. This adds significant costs and confusion without any tangible benefits.
- Both IFRS4 and IFRS9 are significant to insurers. Misalignment in implementing these changes will give rise to volatility in profit or loss and equity without economic substance.

We believe that the proposed Overlay Approach would not resolve all of the key issues related to the misalignment of dates and would result in an approach for which the costs significantly exceed the benefits. None of the CFO Forum members envisage using the Overlay Approach option. Furthermore, Insurance Europe is currently only aware of fewer than 5 other companies who prefer to use the Overlay approach; these companies are conglomerates with predominant banking activities that are based in the Belgian and Finnish jurisdictions.

We believe that a deferral of IFRS 9 for insurers continues to be the only effective method to address all the key issues related to the misalignment of dates. For this reason, the Temporary Exemption from applying IFRS 9 ("Temporary Exemption") must be available to all insurers and not only the subset of insurers that would be eligible under the Exposure Draft. In particular, a level playing field can only be achieved using the Temporary Exemption for insurers with an appropriate scope of application.

The CFO Forum survey that was shared earlier with the IASB (extract included in Appendix B) demonstrates that under the current proposals a significant proportion of the CFO Forum members would be expected not to qualify for the Temporary Exemption when IFRS 9 becomes effective in 2018. As these CFO Forum members represent major insurance companies (in some cases companies designated as Globally Systemically Important Insurers by the Financial Stability Board would not meet the criteria), it would be difficult for users to understand why these insurers could not qualify as an insurance company for this Temporary Exemption. Furthermore, most of the large insurers owned by banks would not qualify for the Temporary Exemption under the Exposure Draft. Therefore the qualifying criteria for the Temporary Exemption must be revised to address these issues.

The Overlay Approach

The Overlay Approach does not address all our key concerns. In particular, it would require insurers to apply IFRS 9 in 2018 in isolation, ahead of implementation of IFRS 4 Phase 2. Therefore, this approach will still result in multiple significant changes in a short period of time and the need to effectively implement IFRS 9 twice (once in 2018 and once when IFRS 4 Phase 2 is implemented). This dual implementation would be confusing to users. Implementing the Overlay Approach would result in significant incremental operational efforts and costs that would outweigh the limited benefits. In addition, the Overlay Approach does not resolve the issue of artificial volatility in shareholders' equity.

We are not opposed to retaining the Overlay Approach as an option in addition to the Temporary Exemption. However, as a result of the serious limitations of the Overlay Approach, our responses to the Exposure Draft are focused on the Temporary Exemption which, if applied appropriately, can address the key issues related to the misalignment of dates for all insurers.

The Temporary Exemption

The primary financial reporting objective of insurers is to provide meaningful and understandable financial information both internally and to the users of our financial statements. We equally believe it is important that there is a level playing field for financial information within the insurance industry. The Temporary Exemption option is the only solution that will provide both meaningful and understandable information while maintaining a level playing field within the insurance industry.

Therefore, we strongly support the Temporary Exemption, provided that its scope is appropriately defined. This is not achieved by the proposals in the Exposure Draft. Whilst we support a principle of "predominant insurance activities" for the scope of the Temporary Exemption, predominance cannot be simplistically defined using only a rigid quantitative test as proposed in the Exposure Draft. Such an approach will lead to inappropriately excluding many insurance entities from the scope of the Temporary Exemption.

We believe that predominance should be determined based on principles reflecting a range of qualitative and quantitative factors, including the application of regulation to insurers, which would permit insurance entities to be able to apply the Temporary Exemption. Utilising a principles-based predominance criterion would be consistent with the principles-based nature of IFRS and would accommodate the different balance sheets of insurers around the globe. There should be a presumption that a regulated insurance entity/(sub)group is engaged in predominantly insurance activities. This assessment should be done first at a group level. If needed, it could then be performed again at the next level down (sub-group/entity level). Quantitative indicators may be helpful for illustrative purposes, but should not be the key determining factor. Where quantitative examples are used, these should appropriately include all liabilities related to insurance activities, and should not be limited to liabilities in the scope of IFRS 4. Equally it should not include an arbitrary (de facto) bright line.

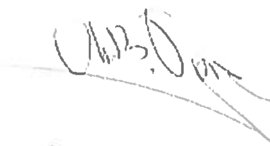
We support the IASB's proposed application of a predominance assessment at the reporting entity level for insurance groups. However, a specific solution is also needed to ensure that insurers that are part of a conglomerate (e.g. bancassurers) are able to elect to defer IFRS 9 until IFRS 4 Phase 2 is implemented. We believe that comparing "insurer to insurer" is more important and meaningful than comparing assets related to insurance activities with assets relating to non-insurance (e.g. banking) activities within a conglomerate. As such, whether an insurer operates standalone or is part of a conglomerate should not impact the ability to apply the Temporary Exemption. Applying the Temporary Exemption at the level of the insurance operations within the conglomerate and then permitting this Temporary Exemption to roll-up into group reporting will be crucial to address this conglomerate issue.

Conclusion

For the reasons discussed above, we conclude that the Temporary Exemption is the only pragmatic solution that provides meaningful information to users, can be implemented without excessive cost and which avoids accounting mismatches that would create volatility in the income statement and shareholder equity. However, we strongly believe that the proposals in the Exposure Draft must be amended to ensure that the Temporary Exemption is not limited to only a subset of insurers and includes all insurance groups regardless of their group structure.

We have included in Appendix A our detailed responses to the questions raised in the Exposure Draft including our concerns for first-time adopters, who face similar significant issues as entities that already apply IFRS and would not qualify for the Temporary Exemption under the Exposure Draft (see our response to Question 5 for further information). A copy of our letter to EFRAG has been included in Appendix C for your information.

Yours sincerely,



Nic Nicandrou
Chair
European Insurance CFO Forum

Olav Jones
Deputy Director General
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Appendix A

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?

Joint Response to Question 1:

Yes, we strongly agree that the IASB should address these very significant concerns.

Our previous correspondence with you not only highlighted the above three concerns but also noted others such as:

- Two major accounting changes in a short period of time noted in item (c) above would not only result in the significant costs and effort but could also confuse users of the financial statements and undermine their confidence in the financial statements.
- Applying the more fair value oriented IFRS 9 without the corresponding current value accounting for liabilities under IFRS 4 Phase 2 will result in misleading financial reporting, even if the net P&L impact is reversed (the Overlay Approach would only mitigate some of the net income statement impact but not the impact on equity).

Question 2 – Proposing both an overlay approach and a temporary exemption from 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.

Joint Response to Question 2:

We believe that the Exposure Draft's proposed Overlay Approach would not resolve the key issues related to the misalignment of dates and would result in an approach for which the costs significantly exceed the benefits. None of the CFO Forum members envisage using the Overlay Approach option. Furthermore, Insurance Europe is currently only aware of fewer than 5 other companies who prefer to use the Overlay approach; these companies are conglomerates with predominant banking activities who are based in the Belgian and Finnish jurisdictions.

The Overlay Approach will still result in multiple significant changes in a short period of time and the need to effectively implement IFRS 9 twice (once in 2018 and once when IFRS 4 Phase 2 is implemented). Therefore, it will be confusing to users. Implementing the Overlay Approach would result in significant incremental operational efforts and costs that would outweigh the limited benefits. In addition the Overlay Approach does not resolve the issue of artificial volatility in shareholders' equity.

As a result, we believe that a deferral of IFRS 9 for insurers continues to be the only effective method to address all the key issues related to the misalignment of dates. For this reason, the Temporary Exemption option must be available to all insurers which engage predominantly in insurance activities and not the subset of insurers that would be eligible under the Exposure Draft. In particular, a level playing field can only be achieved using the Temporary Exemption for insurers with an appropriate scope.

As such, we strongly believe that the Temporary Exemption should not be limited to a subset of insurers. However, we are not opposed to retaining the Overlay Approach as an option in addition to the Temporary Exemption.

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?

Joint Response to Question 3:

The Overlay Approach does not address all our key concerns. This approach will still result in multiple significant changes in a short period of time and the need to effectively implement IFRS 9 twice (once in 2018 and once when IFRS 4 Phase 2 is implemented). This dual implementation would be confusing to users. Implementing the Overlay Approach would result in significant incremental operational efforts and costs that would outweigh the limited benefits. In addition the Overlay Approach does not resolve the issue of artificial volatility in shareholders' equity.

None of the CFO Forum members envisage using the Overlay Approach option. Furthermore, Insurance Europe is currently only aware of fewer than 5 other companies who prefer to use the Overlay approach; these companies are conglomerates with predominant banking activities who are based in the Belgian and Finnish jurisdictions.
As the Overlay Approach does not address all our key concerns, we have not commented on the details of this approach.

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 (i.e. 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?**

Joint Response to Question 4:

(a) We believe the eligibility for the Temporary Exemption should be revised. Whilst we support a principle of "predominant insurance activities" for the scope of the Temporary Exemption, predominance cannot be simplistically defined solely based on insurance contract liabilities within the scope of IFRS 4. Such an approach will lead to excluding many insurance entities from the scope of the Temporary Exemption.

The CFO Forum survey that was shared earlier with the IASB demonstrates that under the current proposals a significant proportion of the CFO Forum members would not qualify for the Temporary Exemption when IFRS 9 becomes effective in 2018 (see Appendix B). As these CFO Forum members represent major insurance companies (in some cases companies designated as Globally Systemically Important Insurers by the Financial Stability Board would not meet the criteria), it would be difficult for users to understand why these insurers could not qualify as an insurance company for this Temporary Exemption. Therefore, in order to create a meaningful scope, the qualifying criteria for the Temporary Exemption must be revised.

(b) No, we disagree. We believe that predominance should be determined based on principles reflecting a range of qualitative and quantitative factors. There should be a presumption that a regulated insurance entity/(sub)group is engaged in predominantly insurance activities. This assessment should be done first at a group level. If needed, it could then be performed again at a lower level(s) (sub-group/entity level).

Utilising a principles-based predominance criterion would be consistent with the principles-based nature of IFRS and would accommodate the different balance sheets of insurers around the globe.

While we support the principle of predominant insurance activities, we are very concerned with the limited and arbitrary fashion in which the Exposure Draft proposes to apply the predominance principle. Predominance cannot be simplistically defined using only a rigid quantitative test of "IFRS 4 insurance liabilities as a percentage of total liabilities". Using only a formula to make this assessment will lead to excluding many insurance entities from the scope of the Temporary Exemption.

A predominance test based on IFRS 4 insurance liabilities as a percentage of total liabilities excludes several liability balances even if these are clearly related to insurance activities, such as derivative liabilities (which hedge insurance activities), non-controlling interest in consolidated investment

funds (which are classified under IFRS as liabilities), funding liabilities, investment contract liabilities (e.g. unit linked contracts) carried at fair value through profit and loss and other insurance related liabilities (for example payables arising from insurance/reinsurance operations and policyholder payables). Specifically for investment contracts which are accounted for at fair value through profit or loss and derivatives at fair value through profit or loss, the accounting under IFRS 9 would not be different from IAS 39; therefore, these items should not impact the outcome of the predominance test. Any examples used to illustrate the predominance principle should adequately reflect these liability components. On top of this, the IFRS 4 insurance liabilities may not be a good indicator of the size of insurance activities. For example, P&C and certain life-protection business may have relatively small insurance liabilities but represent a much larger portion of the entity's activities. The above illustrates the significant shortcomings of a simplistic formula and the limitations of an arbitrary (de facto) bright line.

In addition, using such a principles-based approach may also help to deal with some application issues such as the timing of the assessment and which entities within the group would qualify for the Temporary Exemption. If the assessment is to be performed on 1 January 2018 only then an entity that may currently meet the quantitative Temporary Exemption requirements as defined in the Exposure Draft may find that it does not meet those requirements on 1 January 2018 due to normal fluctuations in its business/market conditions. If that entity would then not be allowed to utilise the Temporary Exemption, it would not have sufficient time to appropriately implement IFRS 9 before its annual or even interim reporting is due. Therefore, any requirement to implement IFRS 9 must be known years in advance of when an entity must report under IFRS 9.

Given the temporary nature of the Temporary Exemption, we believe that reassessments are unnecessary or should only occur under exceptional circumstances.

(c) We support the IASB's proposed application of a predominance assessment at the reporting entity level for insurance groups. However, a specific solution is also needed to ensure that insurers that are part of a conglomerate (e.g. bancassurers) are able to elect to defer IFRS 9 until IFRS 4 Phase 2 is implemented.

We believe that comparing "insurer to insurer" is more important and meaningful than comparing assets related to insurance activities with assets relating to non-insurance (e.g. banking) activities within a conglomerate. As such, whether an insurer operates standalone or is part of a conglomerate should not impact the ability to apply the Temporary Exemption. Applying the Temporary Exemption at the level of the insurance operations within the conglomerate and then permitting this Temporary Exemption to roll-up into group reporting will be crucial to address this conglomerate issue.

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?

Joint Response to Question 5:

(a) We agree that the Overlay Approach and the Temporary Exemption from applying IFRS 9 should be optional. We believe that the Exposure Draft's proposed Overlay Approach would not resolve the key issues related to the misalignment of dates and would result in an approach for which the costs significantly exceed the benefits. None of the CFO Forum members envisage using the Overlay Approach option. Furthermore, Insurance Europe is currently only aware of fewer than 5 other companies who prefer to use the Overlay approach; these companies are conglomerates with predominant banking activities who are based in the Belgian and Finnish jurisdictions.
While we agree with the optional nature of applying the Temporary Exemption, we are concerned that first time adopters of IFRS will not be permitted to apply the Temporary Exemption. We believe that a first-time adopter such as described in paragraph 3(c) of IFRS 1 (prepared a reporting package in accordance with IFRSs for consolidation purposes without preparing a complete set of financial statements as defined in IFRS 1) should be able to elect to apply either the Temporary Exemption or the Overlay Approach. We do not see any principles that would support excluding first-time adopters from applying the Temporary Exemption. Even if those entities do not publish their financial statements in accordance with IFRS, they may already have IFRS reporting systems in place (for example, a subsidiary that reports externally on local GAAP, but internally on IFRS to its parent). Therefore, we believe that the Temporary Exemption should be extended to first-time adopters to ensure a principles-based approach and prevent additional costs and duplication of procedures.

(b) We agree with the proposal to allow entities to stop applying the Overlay or Temporary Exemption 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

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?

Joint Response to Question 6:

We appreciate the IASB's acknowledgement of the significant issues faced by insurers due to the misalignment of the effective dates for IFRS 9 and IFRS 4 Phase 2. As such, we believe that when this misalignment issue is resolved with the effective date for IFRS 4 Phase 2 then the Temporary Exemption from applying IFRS 9 should be terminated.

Appendix B –CFO Forum Survey Results[1]

In percentage of total liabilities	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Amount of insurance contract liabilities	75%	72%	73%	83%	56%	81%	65%	88%	49%	19%	75%	39%	41%	81%	84%	14%	69%	60%	84%	50%
Amount of investment contract with DPF liabilities accounted for under IFRS 4	7%	6%	11%	0%	14%	0%	15%	0%	42%	8%	7%	33%	25%	0%	0%	2%	2%	21%	0%	10%
Amount of investment contract liabilities accounted for under IAS 39 at FVPL	5%	5%	6%	0%	9%	2%	1%	0%	2%	44%	2%	16%	18%	0%	0%	73%	17%	3%	0%	19%
Funding liabilities	1%	1%	1%	1%	4%	6%	1%	4%	1%	1%	2%	5%	3%	7%	2%	1%	3%	3%	3%	21%
Insurance related derivatives liabilities	1%	0%	1%	0%	6%	2%	0%	0%	2%	0%	0%	0%	1%	0%	0%	1%	0%	0%	0%	0%
Non-controlling interest in consolidated funds classified as liabilities, not equity	0%	1%	2%	0%	1%	0%	0%	0%	0%	8%	0%	0%	3%	2%	0%	4%	0%	0%	0%	0%
Sum of above	89%	85%	94%	84%	89%	91%	83%	92%	95%	80%	86%	93%	92%	91%	86%	96%	91%	87%	87%	99%
All other liability balances not included above	11%	15%	6%	16%	11%	9%	17%	8%	5%	20%	14%	7%	8%	9%	14%	4%	9%	13%	13%	1%
Total liabilities per 2014 annual report	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

[1] Insurance operations of CFO Forum members reporting under IFRS. For conglomerates, these insurance operation figures have been extracted from their consolidated conglomerate figures. For these conglomerates, their insurance operations meet the proposed Exposure Draft predominance threshold but not at the conglomerate level.