FÉDÉRATION
BANCAIRE
FRANÇAISE

Banking supervision
And Accounting issues Unit
The Director

Paris, January 25th 2016

FBF comments on the EFRAG Draft Comments on IASB ED Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance contracts.*

Dear Mr Marshall,

We appreciate to provide our comments to the EFRAG on the IASB ED: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance contracts.*

We share most of the views expressed by the EFRAG in its comment letter regarding the IASB proposals to address concerns related to the misalignment of the effective dates of IFRS 9 and the new insurance contract standard. However, we would like to highlight the following points.

We are not fully convinced that the overlay approach is the approach to be retained.

First, as stated by the EFRAG, the overlay approach helps to neutralize the volatility in profit or loss from the FVPL classification under IFRS 9 for assets that were previously classified as amortized or available for sale under IAS 39. However, this approach would not remove the potential additional volatility in equity (through the OCI).
Besides, as the overlay approach is a matter of classification and measurement of financial assets, it will still require insurance regulated entities to implement the impairment requirements of IFRS 9 creating as such some complexity for users to get extensive understanding of these entities' accounts through additional disclosures.
Finally, the additional costs and burden generated by the implementation of the overlay approach could significantly limit its applicability.
Indeed, the overlay approach will require to perform a parallel run of IFRS 9 and IAS 39 during the transition period. As already highlighted in the EFRAG draft letter, it implies to maintain two systems, to develop new data-processing systems and new internal controls.

Mr Roger MARSHALL
Acting Chairman
EFRAG Board
35 Square de Meeûs
B-1000 Bruxelles

We believe that the temporary exemption would provide a suitable solution to the concerns raised by the misalignment of the effective dates. Indeed, the temporary exemption avoids accounting mismatches, supplementary costs due to the parallel run of two accounting systems and breaches in consistency of financial reporting.
However, we disagree on how it is designed by the IASB, i.e. applied at the reporting level entity and for entities that have predominant insurance activities. It should not "only capture a relatively narrow population of entities" (§ BC60) as proposed by the IASB.

When considering the two approaches proposed by the EFRAG to identify insurance activities, the "regulated entity" criterion appears to be the most appropriate.
Defining a new "predominance activity" criterion even widened might lead to interpretation, whereas a "regulated entity" criterion depends on factors independently defined by other competent authorities and, thus, is more objective. Indeed, in most jurisdictions, insurance activities are undertaken within regulated entities and have received authorisation from the supervisory authorities.

However we believe that the regulated criterion as proposed by the EFRAG would be too restrictive and would exclude from the temporary exemption entities that are exclusively or mainly related to insurance activities (for example consolidated funds, service companies or non-regulated intermediate or ultimate holding companies). Accordingly we would suggest to complete the proposed definition in §65 of the EFRAG's Draft comment letter with the followings:

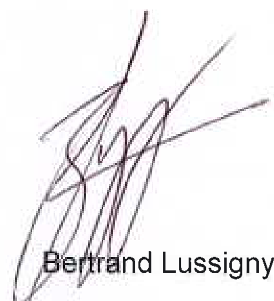
> *(c) An 'insurance holding company' is defined as 'a parent undertaking the main business of which is to acquire and hold participations in subsidiary undertakings, where those subsidiaries undertakings are exclusively or mainly related to insurance or reinsurance undertakings ".*

Using such a criterion will meet the common concern raised by the IASB but also by the EFRAG that the exemption should not be extended to material non-insurance activities, particularly banking activities. It will also ensure that the level playing field within insurers that issue material amount of insurance contracts within IFRS 4 would not be distorted. Insurance entities would not be treated differently depending on whether the entity is an insurance market player or insurance's entity within a conglomerate. Insurance activities carried within banking conglomerates and their related regulated holdings could, thus, benefit from the optional temporary exemption of applying IFRS 9.

To summarise our views, we support the proposal of the EFRAG of a "regulated entity" criterion that relies on definitions derived from European regulatory resources as developed in the arguments of the EFRAG's Draft comment letter, but completed in order to capture all insurance activities. Therefore, we believe that, in that case, there is no need to use a materiality threshold, the "regulated entity" criterion is full and complete by itself.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Bertrand Lussigny