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Re: EFFAS Comment Letter on EFRAG letter on
IASB ED/2015/11 Applying IFRS 9 Financial
Instruments with IFRS 4 Insurance

Dear Sir/Madam,

EFFAS' Commission on Financial Accounting (“FAC”, “Commission”, “we”) is pleased to share with you the views of European users of financial statements regarding EFRAG draft letter on IASB ED/2015/11 Applying IFRS-9 Financial Instruments with IFRS-4 Insurance

Commission's comments to the letter are as follows:

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 (paragraphs BC17–BC18).
- (c) Two sets of major accounting changes in a short period of time could result in significant costs and effort for both preparers and users of financial statements (BC19–BC21).

The proposals made by the IASB are designed to address these concerns.

Do you agree that the IASB should seek to address these concerns? Why or why not?

Users' work on historical liability data and any change in accounting rules implies reclassification of all previous historical data. In this scenario it will be not useful to change assets in 2018 after a new Solvency II framework information is introduced in 2016 and the early awaited IFRS phase II in 2019 or 2020. It will not be practical nor useful for any user to reclassify its data-base 3 times in a few years. We primarily support the application of the new insurance contracts Standard and IFRS 9 at the same time.

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 required, please explain which and why.

We support EFRAG's position

Question 3 – The overlay approach

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

- (a) Paragraphs 35B and BC35–BC40 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 in 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?

The Commission considers the overlay an acceptable approach. Close attention should be put however in disclosures that should be clear and useful to compare with other companies based on deferral or IFRS 9 approach. Also it should be useful to include a statement on each page of the income statement and balance sheet stating that either the overlay approach or the partial waiver from the application of IFRS 9 is being applied.

Question 4 – The temporary exemption from applying IFRS 9

As described in paragraphs 20A and BC58–BC60 the ED 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 ED 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?

From a user standpoint it is hard to manage financial conglomerates as they would not be concerns for a bank with an insurance activity or an insurance company with banking activity if two different standards (IFRS 9 and IAS 39) were applied. Analysts usually look at conglomerates as a “sum of the parts” at the legal entities or segments level and not necessarily as an “all inclusive” entity. A clear identification of “insurers” or “predominately insurance activities entity” should be established.

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

As explained in paragraphs BC78–BC81, the ED proposes that both the overlay approach and the temporary exemption from applying IFRS 9 should 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?

It is considered that the decision made should be applied to the industry across the board. The Commission considers that “optionality” introduces an element of “leeway” that would make very difficult comparability.

Question 6 – Expiry date

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 from applying IFRS 9 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?

EFFRAG’s position regarding the date is supported. Hopefully the deadline for the new Insurance Contracts would be earlier than January 1st 2021.

If you would like to further discuss the views expressed in this letter please do not hesitate to contact us.



Javier de Frutos,
Chairman
Commission on
Financial Accounting

EFFAS Commission on Financial Accounting

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 27 member organizations representing more than 16,000 investment professionals. The Commission on Financial Accounting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. FAC members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Bertrand Allard (SFAF, France), Rolf Rundfelt (SFF, Sweden), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium), Jérôme Vial (SFAA, Switzerland), Luca D’Onofrio (AIAF, Italy).