GROUPEMENT FRANÇAIS DES BANCASSUREURS

Le Délégué Général

Paris, December 13th, 2016

Mr Jean-Paul GAUZES
Chairman – EFRAG Board
35 square de Meeûs
B1-000 Bruxelles
Belgium

EFRAG's Draft Endorsement Advice of the IASB's Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Dear Mr. Gauzès,

I am writing on behalf of the GROUPEMENT FRANCAIS DES BANCASSUREURS (GFBA) to express our views on the above-mentioned Draft Endorsement Advice of the Amendments to IFRS 4: Applying IFRS 9 financial instruments with IFRS 4 insurance contracts.

The GFBA represents all the French Bank-insurers whose major companies are CREDIT AGRICOLE ASSURANCE, CNP ASSURANCES, BNP PARIBAS CARDIF, SOCIETE GENERALE INSURANCE, ASSURANCES DU CREDIT MUTUEL, NATIXIS ASSURANCE, HSBC ASSURANCE FRANCE.

In Life Insurance, we hold the major market share with about two-thirds of the French market, which represents more than eighty seven billions Euros (87 billions €) of premiums every year and the total amount of our technical reserves represent nine hundred billions Euros (900 billions €). In Non-Life, we represent about twenty percent (20%) of domestic risk and fifteen percent (15 %) of Motor Vehicle Insurance, with premiums about sixteen millions of contracts (16 millions).

The GFBA is fully supportive of the IASB's and EFRAG's efforts to provide a remedy to the concerns raised by the Insurance Industry and other interested parties on the misalignment of effective dates for IFRS 9 and IFRS 17.

In its Amendments, IASB has suggested two options in order to address the non-alignment of the effective dates of IFRS 9 and IFRS 17: (i) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 ("the deferral approach"); and (ii) an option that would permit entities that issue contracts within the scope of IFRS 4 to reclassify from P&L to Other Comprehensive Income temporary additional volatility that could occur before the new insurance contracts Standard is effective (the "overlay approach").

As mentioned in our comment letter on the ED dated 13th May 2016, we consider that the overlay approach is not an appropriate alternative, even if the volatility is offset in equity. Indeed, the operational complexity and efforts required to run both IFRS 9 and IAS 39 would create a costly and complex process until the effective date of the new insurance contract standard. The overlay approach has not been deemed a suitable solution for predominant insurers for the very same reasons. The temporary exemption from applying IFRS 9 is by far the most suitable option for the whole industry.

The GFBA shares with the European Commission the concern that the Amendments shall not generate distortions of competition within the European market. The G11 supports the EFRAG position stated in its comment letter dated 12th February 2016, "that the temporary exemption from applying IFRS 9 should also be available at levels below a mixed group reporting entity" since a "temporary breach in the uniformity of accounting policies [within a reporting group] is acceptable" in order to have "a level playing field in the insurance sector".

As stated above, the GFBA represents 65 % of the French life insurance industry, and the first insurer in France in 2015 is a bank-insurer. At a European level, and as mentioned in appendix 3 (§ 27) of EFRAG's endorsement advice, 20-25 % of the main 50 European groups undertaking insurance activities are not predominant insurers and therefore excluded from the temporary exemption. We consider that this represents a significant part of the European Insurance market.

In June 2016, the French Bank and Insurance Industry provided the European Commission and EFRAG with an impact study of the effects of IFRS 9 for insurance activities undertaken by financial conglomerates. In addition to confirming the significant part of the European market, it also provided an assessment of incremental costs induced by the successive implementation of IFRS 9 and IFRS 17, sweeping aside the argument that such conglomerate may benefit from synergies (Appendix 3 § 40).

In addition to those costs, we believe that the restricted availability of the temporary exemption raises behavioural incentive issues during the transition period prior to the application of IFRS 9. Insurers may be tempted to manage the assets that have significant unrealized gains as those gains that will be frozen in retained earning upon transition. Non predominant insurers will not benefit from the same period of time as predominant insurers which will create a distortion in market competition.

We strongly support the need for a "level playing field" between all entities involved in insurance activities in Europe. 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.

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We therefore still consider that the deferral approach should be made available to all entities undertaking insurance activities that are not predominant insurers. The scope of the temporary exemption should be defined below the reporting level entity including consolidated insurance entities. It would provide a suitable solution to the concerns raised by the misalignment of the effective dates and to the concerns raised by the insurance activities that are included in financial conglomerates and that are significant in Europe.

Should you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely,

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