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Ref
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Date
13.12.2016

**EFRAG's Draft Letter to the European Commission Regarding
Endorsement of *Applying IFRS 9 Financial Instruments with
IFRS 4 Insurance Contracts: Amendments to IFRS 4***

Dear Madam or Sir

On behalf of the German Insurance Association (GDV) we welcome the opportunity to comment on EFRAG's draft endorsement advice regarding the amendments to IFRS 4, issued by the IASB on 12 September 2016. These amendments are of utmost importance for the German insurance industry as they provide the temporary exemption from IFRS 9 ('deferral approach') to 'pure' insurers respective insurance groups. The deferral approach allows for an alignment of the mandatory effective dates of IFRS 9 Financial Instruments and the future insurance contracts Standard (IFRS 17). Hence it generally addresses a long-standing core request of the German insurance industry.

Overall we are supportive of EFRAG's tentative conclusion that the EU endorsement of the amendments, as issued by the IASB, would be conducive to the European public good (page 3 of the draft endorsement advice), though the amendments "*would not result in a completely level playing field among all entities undertaking insurance activities*" (page 2 of the draft endorsement advice) as the case of insurers active in financial conglomerates has not been addressed by the IASB when providing the deferral of IFRS 9 for 'pure' insurers.

Nevertheless, we **support an unqualified endorsement advice to the European Commission to allow for a swift finalization of the European endorsement procedure**, sufficiently ahead of the effective date of IFRS 9, i.e. 1 January 2018. In general, we agree with the analysis and the tentative assessment of EFRAG as provided in its draft endorsement advice, published for public consultation on 15 November 2016.

Gesamtverband der Deutschen
Versicherungswirtschaft e. V.

German Insurance Association

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Our comments on the specific questions in your Invitation to Comment on the EFRAG's draft endorsement advice are provided in the annex to this letter.

If you like to discuss our views further, please do not hesitate to contact us.

With best regards



Dr. Axel Wehling
Member of the Management Board
German Insurance Association



Hans-Juergen Saeglitz
Head of Accounting
German Insurance Association

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS: AMENDMENTS TO IFRS 4

Comments should be submitted by 13 December 2016 by using the 'Express your views' page on EFRAG website or by clicking [here](#)

EFRAG has been asked by the European Commission to provide it with advice and supporting material on *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4* (the 'Amendments'). In order to do so, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from its implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interests of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

EFRAG's initial assessments, summarised in this questionnaire, will be updated for comments received from constituents when EFRAG is in the process of finalising its *Letter to the European Commission* regarding endorsement of the Amendments.

Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

German Insurance Association (GDV)
Gesamtverband der Deutschen Versicherungswirtschaft e. V.
Wilhelmstraße 43 / 43G, 10117 Berlin, Germany

- (b) Are you a:

Preparer User Other (please specify)

An insurance association

- (c) Please provide a short description of your activity:

The German Insurance Association (GDV) is the federation of private insurers in Germany. Its about 460 member companies offer comprehensive coverage and retirement provisions to private house-holds, trade, industry and public institutions, through 429 million insurance contracts. With an

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investment portfolio of approx. 1.509 billion EUR, insurers play a leading role for investments, growth and employment in the German economy.

(d) Country where you are located:

Germany

(e) Contact details, including e-mail address:

German Insurance Association (GDV)
Gesamtverband der Deutschen Versicherungswirtschaft e. V.
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EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, the Amendments are not contrary to the principle of true and fair view and meets the criteria of understandability, relevance, reliability, comparability and raises no issues regarding prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

(a) Do you agree with this assessment?

Yes No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

No further comments.

(b) Are there any issues that are not mentioned in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No further comments.

The European public good

3 In its assessment of the impact of the Amendments on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

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Improvement in financial reporting

- 4 EFRAG has identified that in assessing whether the endorsement of the Amendments is conducive to the European public good it should consider whether the Amendments are an improvement over current requirements (see paragraphs 3 and 4 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's initial assessment is that the Amendments are likely to improve the quality of financial reporting relative to the situation if there were no remedies.

Do you agree with the assessment?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

No further comments.

Costs and benefits

- 5 Given that the Amendments introduce two options to assist in mitigating the misalignment of the effective dates of IFRS 9 and the forthcoming insurance contracts Standard, EFRAG expects that each entity will select the best option in its specific circumstances for which it is eligible, in particular, each entity will select the option that provides the best cost-benefit trade-off. Overall, EFRAG assesses that the benefits for both users and preparers are likely to exceed the costs of applying the Amendments for the reasons stated in paragraphs 5 – 23 of Appendix 3.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not agree and explain broadly what you believe the costs and associated benefits will be?

While we generally agree with the EFRAG's overall assessment of the IASB's Amendments at large, we like to restate the GDV assessment that the costs of the overlay approach exceed the related benefits. Hence, the overlay approach is not an alternative the German insurance industry is focusing on.

Potential competition issues within the EU

- 6 EFRAG has identified a number of other factors that could be considered in assessing whether the endorsement of the Amendments is conducive to the European public good (see Appendix 3, paragraphs 24 to 43). EFRAG is unable to conclude whether the application of the temporary exemption from IFRS 9 amounts to a material competition issue from an economic perspective. In addition, EFRAG is not aware of any issues where the use of the overlay approach would affect competition between entities.

Do you agree with the assessment of these factors?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

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While we generally agree with EFRAG's tentative final conclusion in paragraph 43, we disagree with the particular assessment in the last sentence in paragraph 24, Appendix 3, that "*some form of solution is available to the entire insurance industry*". In particular, we do not view that the overlay approach is an equivalent alternative to those insurers that are not eligible to the deferral approach as designed by the IASB. In that regard we also disagree with the statement in paragraph 37 that those insurers are "able to mitigate the accounting mismatches and volatility (...) by using the overlay approach". In practical terms those insurers are *unable* to benefit from this approach.

The overlay approach does not only lead to "higher" implementation costs. It creates rather excessive implementation costs as it would require a full parallel run of accounting systems (for IAS 39 and for IFRS 9) for some years. Furthermore, the overlay approach requires concerned insurers to adopt the full IFRS 9 in isolation, ahead of future IFRS 17 being at least available. Hence, overlay approach is not a suitable measure to holistically address all the concerns related to the non-alignment of the effective dates of future IFRS 17 and IFRS 9.

Finally, comparing the different accounting treatment for example of equities under IAS 39 and IFRS 9 we also conclude that an accounting related disadvantage for related investments arises for those insurers not eligible for the deferral approach in the same way as "pure" insurers. It is a competitive disadvantage, though we do not disagree that other important factors (e.g. regulatory capital requirements) might influence investment decisions as well.

Overall, we agree with the EFRAG tentative assessment that "*the Amendments would not result in a completely level playing field among all entities undertaking insurance activities*" (page 2 of the draft endorsement advice).

Other factors

- 7 Do you agree that there are no other factors to consider in assessing whether the endorsement of the Amendments is conducive to the European public good?

Yes No

If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice.

No further comments.

Overall assessment with respect to the European public good

- 8 EFRAG has initially concluded that endorsement of the Amendments would be conducive to the European public good (see paragraphs 44 to 47 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

Do you agree with this conclusion?

Yes No

If you do not agree, please explain your reasons.

No further comments.