insurance europe | CFO FORUM

Mr. Roger Marshall
Acting President
EFRAG
35 Square de Meeûs
1000 Brussels

6 March 2015

Subject: Views on IFRS 9 endorsement in the EU

Dear Mr. Marshall,

This letter has been drafted by 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. The total investments portfolio held by Europe's insurance companies at the end of 2013 was in excess of €8,500 billion[1] covering their life and non-life policyholder liabilities and related capital.

We would like to bring to EFRAG's attention the views of the European insurance industry regarding the ongoing discussions on the critically important topic of the endorsement of IFRS 9 Financial Instruments in the EU. We are doing so taking into account the IASB tentative decision, in January 2015, not to defer the mandatory effective date for IFRS 9 for insurers (IASB Update, January 2015).

As you are aware, some non-insurance constituents are asking for a swift EU-endorsement process for IFRS 9 as issued by the IASB on 24 July 2014. We would like to clarify that, in general, we are not against the endorsement of IFRS 9; however there must be a sound solution regarding the interaction with the eventual outcome of the ongoing IFRS 4 Phase II project for the reasons we will explain below. A tailored solution is crucial because IFRS 9 is also a fundamental new standard and of paramount importance for the European insurance industry at large.

Insurers provide insurance coverage and follow long-term asset and liability management strategies to fulfil their obligations towards policyholders. Therefore, it is important that the accounting requirements for financial instruments and insurance liabilities are considered and applied together as a package. This will allow us to be able to show our financial performance coherently and in line with the insurance business model. The IASB's project for insurance contract accounting has not yet produced appropriate proposals, especially for participating contracts, but also on other significant issues. As such, applying IFRS 9 will create a temporary reporting basis which will need to be altered again, at significant cost, when IFRS 4 Phase II is adopted. This will create confusion with many users of the financial statements.

The IFRS for insurance contracts will not be ready in time to match the effective date for IFRS 9 - as set by the IASB for 1 January 2018. Hence, as the IASB itself acknowledges, many insurers will not be able to apply these two new IFRSs together, because they will need at least three years to implement the new IFRS for insurance contracts after its publication. This situation requires insurance companies to select a classification for their financial instruments that will then need to be reassessed and potentially re-classified within a short period of time in order to reflect the new accounting standard for the associated insurance liabilities.

As noted above, if insurers are forced to use IFRS 9 before the implementation of IFRS 4 Phase II, it will create confusion. This would be difficult to explain to users, and there is a significant risk that investors will be misled.

We strongly recommend a global solution to align the effective dates for IFRS 4 Phase II and IFRS 9 for insurers as this would reflect how our financial assets and insurance liabilities are managed together. It is of paramount importance that insurers are not required to apply significant changes in accounting requirement to assets and liabilities at separate times. We believe that a pragmatic solution can be found so that these objectives are met whilst accommodating the IASB's desire to implement IFRS 9. For example, with regard to the scoping question of the 'insurers' for which the application of IFRS 9 could be delayed, we are of the view that most of them might be identified by reference to regulation or to the current application of IFRS 4 Phase I. Likewise, the position of conglomerates might be addressed through segmental reporting.

[1] *Source: "European Insurance in Figures" publication which can be downloaded at:* *www.insuranceeurope.eu/facts-figures/statistical-publications*

The IASB's recent move in the direction of giving some greater transition relief (so as to give insurers the opportunity to revisit the classification of financial instruments under IFRS9) when the Phase II IFRS is adopted misses insurers' central concern that they need to adopt the two new IFRSs at the same time. A second, but markedly less attractive, alternative would be a European solution that allows European insurers to delay the mandatory adoption of IFRS 9 until the effective date of IFRS 4 Phase I's replacement comes into force. Without such a possibility, insurers in Europe would be at a serious disadvantage and effectively forced to perform the initial IFRS 9 application exercise twice. Its significant disadvantage is that an EU-only solution would not address the burden for entities operating on a global basis, especially those that are listed on stock exchanges outside Europe as well as in Europe will therefore have to apply IFRS anyway as issued by the IASB. Therefore, we believe the IASB should develop a suitable solution that could also be supported by the EU and other global stakeholders.

We also note that it is uncertain whether the suggested way forward by the IASB on the interaction between IFRS 4 Phase II and IFRS 9 could, at least partially, respond to the request from the insurance industry for the alignment of accounting provisions for assets and liabilities. We would like to point out that there are different views among IASB Board members. Some IASB members have the view that the business model under IFRS 9 can change as a result of changes in the measurement model for insurance contracts, suggesting that reclassification may be appropriate. However, other IASB Board members believe that the business model is a matter of fact, suggesting that the number of reassessments should not be significant. Furthermore, it is also unclear how the audit profession will assess such levels of judgment. Our understanding is that the IASB proposals have yet to be developed; they will require detailed articulation before judgements as to their appropriateness can be made.

We would highly appreciate if EFRAG can support our request for a global solution from the IASB for those entities that are most affected by the insurance contracts project. As we have consistently highlighted, the interaction of assets and liabilities is fundamental to an insurer's approach to managing its business and reporting its performance. Therefore, unless the IASB amends the effective date for IFRS 9, the EU endorsement should consider the need to delay the mandatory effective date of IFRS 9 for insurers until a successful IFRS 4 Phase II comes into effect which reflects this interaction of assets and liabilities.

Please do not hesitate to contact us in case there are any further questions or comments.

Yours sincerely,

Olav Jones
Deputy Director General
Insurance Europe

Nic Nicandrou
Chair
European Insurance CFO Forum