Mr Hans Hoogervoost
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Brussels, 8 February 2016

Dear Mr Hoogervorst,

On behalf of AMICE, the European association of mutual and cooperative insurers, we welcome the opportunity to comment on the IASB's Exposure Draft, ED/2015/11 Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts, issued by the IASB on 9 December 2015. The mutual and cooperative insurance sector accounts for **more than half of the 5,600 insurance companies in Europe** and close to **30% of premiums**. With more than 100 direct members and representing 1,000 more insurers indirectly, AMICE speaks for a significant part of the insurance sector.

The letter is intended to contribute to the IASB's deliberation process on the Exposure Draft. AMICE is an observer member of EFRAG, the European Financial Reporting Advisory Group.

AMICE supports both the temporary exemption from applying IFRS9 and the overlay approach to address the concerns from the different dates of application of IFRS9 and the new insurance contracts Standard. However, most of the AMICE members concerned will resort to the temporary exemption from applying IFRS9 and not the overlay approach as it is the only approach that eliminates all the difficulties.

AMICE considers that the predominance criterion as developed by the IASB does not properly identify insurers or insurance activities because all the focus is on entities issuing contracts under the scope of IFRS4**. This approach excludes most of the insurers from the temporary exemption from applying IFRS9**. Moreover, AMICE supports the application of the temporary exemption from applying IFRS9 at both reporting entity and below reporting entity level.

AMICE considers that the IASB proposal is very restrictive and that the temporary exemption from applying IFRS9 should be opened to all entities that issue insurance contracts or carry out insurance activities. AMICE supports the two alternative approaches put forward by EFRAG to assess the eligibility criteria (i.e. a **widened "predominant activity" criterion**

Association of Mutual Insurers and Insurance Cooperatives in Europe aisbl
Rue du Trône 98/14 | B-1050 Brussels | Belgium | T: +32 2 503 38 78 | F: +32 2 503 30 55 | secretariat@amice-eu.org

and the **"regulated entity" criterion**). However, the widened "predominant activity" criterion would have to be amended to encompass all liabilities that an insurer might carry on its balance sheet and not only those from insurance contracts issued under the scope of IFRS4. In addition, the predominance criterion should remain principle-based and arbitrary thresholds should not be set. If the insurer fails to pass the test according to the widened predominant activity criteria, then the "regulated entity" criterion should apply.

AMICE agrees that **both the temporary exemption from applying IFRS9 and the overlay approach should be optional** for insurance companies and supports an expiry date for the temporary exemption from applying IFRS9. However, the overlay approach should not be seen as a fall back solution in the event that the IASB does not succeed in finalising the new insurance contracts Standard in the planned period of time. The temporary exemption should therefore be granted until the new insurance contract Standard is finalised.

You will find our detailed responses to the specific questions in the appendix to this letter. Should you need further information or clarification on any of the points raised in the letter, please do not hesitate to contact us.

Yours sincerely,

Silvia Herms
Head of Economic and Financial Affairs

Appendix - Questions for respondents

Question 1 – Addressing the concerns raised

Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS9 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 IFRS9 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 IFRS9 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?

Response

AMICE agrees with the concerns of the insurance industry that the users of financial statements may find it difficult to understand the accounting mismatches and temporary volatility that could arise in profit or loss on the application of IFRS9 before the new insurance contracts Standard is finalised. Our members have also expressed concerns about having to apply the classification and measurement requirements in IFRS9 before the effects of the new insurance contracts Standard can be fully evaluated**. Implementing two major standards which are interdependent in a short period of time will be very costly** for insurers**.** AMICE supports the IASB's attempts to address the concerns from the insurance industry.

Question 2 – Proposing both an overlay approach and a temporary exemption from applying IFRS9

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 IFRS9 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 IFRS9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the 'temporary exemption from applying IFRS9') (see paragraphs BC26–BC31).

Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS9? Why or why not?

If you consider that only one of the proposed amendments is required, please explain which and why.

Response

AMICE supports both the temporary exemption from applying IFRS9 and the overlay approach as valid approaches to address the concerns from the different dates of application of IFRS9 and the new insurance contracts Standard.

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?

Response

In addition to the costs of running two accounting systems, the overlay approach requires insurers to adopt IFRS9 in full and to assess the classification of certain groups of assets and the investment strategy (business model) before the impacts of the new insurance contracts Standard can be properly analysed (the overlay approach can only be applied for financial assets which are classified as fair value through profit or loss in accordance with IFRS9 when they would not have been classified as fair value through P&L under IAS 39 and are designated as relating to contracts in the scope of IFRS4).

According to a survey conducted among AMICE members, the temporary exemption from applying IFRS9 is the preferred solution to addressing the non-alignment between the effective dates of implementation of the IFRS9 Financial instruments and the future insurance contracts Standard. AMICE fully supports this approach as proposed in the Exposure draft ED/2015/11 as it is the only approach that eliminates all the difficulties.

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Question 4 – The temporary exemption

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 IFRS9.

(a) Do you agree that eligibility for the temporary exemption from applying IFRS9 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?

Response

AMICE members share the views that the temporary exemption from applying IFRS9 should be available to all insurers and insurance activities and believe that the IASB proposal is too restrictive as it only captures a limited number of entities.

AMICE supports the application of the temporary exemption from applying IFRS9 at reporting entity level covering insurance and non-insurance activities. Therefore, it should be clarified that the reporting entity level refers to the upper level or consolidated level of an insurer. However, AMICE believes that the IASB should allow **an application of the deferral approach below the reporting entity level** provided the insurer fails to pass the test (a "waterfall" or cascade application of the approach).

With regards to the predominance criteria, AMICE members would support a **widened "predominant activity" criterion** as set out in EFRAG's comment letter on the IASB's Exposure draft ED/2015/11.

The **ratio** should encompass **all liabilities that an insurer might carry on its balance sheet** and not only those from the insurance contracts issued under the scope of IFRS4; All activities from an insurance company will have to be captured. In this regard, all assets and liabilities related to the insurance activities (derivatives, deferred taxes, employee benefit reserves, premium rebates, unit link) should be part of the equation; The numerator should capture all relevant liabilities and the denominator all liabilities. For mutual insurers, any

components which are specific to the financing of mutual companies, such as member accounts which are not classified as equity instruments under IAS 32 should not be included in the ratio.

The predominance criteria should remain **principle-based and no arbitrary thresholds should be set**. We see no reason why the threshold should be set at a higher level. We also support disclosure on how the predominance criterion has been computed.

If the insurance entity fails to pass the test according to the widened predominant activity criterion, the insurer should be allowed to apply an alternative approach, the so-called "**regulated entity" criterion.** The reference to the definitions provided in the Solvency II Directive for the insurance and reinsurance undertaking is appropriate for a proper identification of the entities which carry out insurance activities. AMICE also supports the inclusion of non-regulated entities in the regulated entity criterion.

We would **not support**, however, **the issuance of material contracts within the scope of IFRS4 as a necessary condition** for the application of the temporary exemption from applying IFRS9 for both the "predominant activity" criterion and the "regulated entity" criterion. This condition could exclude from the temporary exemption from applying IFRS9 a significant number of (mutual) insurers who issue investment contracts accounted for under IAS 39 (e.g. unit linked business). Notwithstanding this, if the Board considers that the condition by which the issuance of material insurance contracts under IFRS 4 should prevail, the definition of materiality should remain principle-based.

Additionally, and given that the temporary exemption from applying IFRS9 will only last 3 years, AMICE would not support any requirement to reassess the deferral approach after the initial application in 2018. AMICE shares the views that a regular periodic reassessment of the eligibility for the temporary exemption from applying IFRS9 is unfeasible.

AMICE urges the IASB to finalise its deliberations on this Exposure Draft (ED/2015/11) in due time to allow insurers to assess whether they will benefit from the temporary exemption from applying IFRS9.

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Question 5 – Should the overlay approach and the temporary exemption from applying IFRS9 be optional?

As explained in paragraphs BC78–BC81, the ED proposes that both the overlay approach and the temporary exemption from applying IFRS9 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 IFRS9 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 IFRS9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

Response

We agree that **both the overlay approach and temporary exemption from applying IFRS9 should be optional** for insurance companies in order to allow entities to adopt and implement the solution that better suits their needs. AMICE also agrees with the IASB's proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS9 before the effective date of the new insurance contracts Standard.

Question 6 – Expiry date

Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS9 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 IFRS9 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?

Response

Given the complexity of the topics covered in the new insurance contracts Standard, an appropriate period is needed to ensure that all parties are engaged in meaningful discussions and that a smooth transition to a joint application of the IFRS4 and IFRS9 Standards is guaranteed. In this regard, **AMICE supports an expiry date for the temporary exemption from applying IFRS 4**. However, **the overlay approach should not be seen as a fall back solution** in the event that the IASB does not succeed in finalising the new insurance contracts Standard in the planned period of time. The temporary exemption should therefore be granted until the new insurance contract Standard is finalised.

Other issues

Paragraphs 37A – (c) and (d) on the section on Disclosure in the Exposure Draft require insurers to provide disclosures about the overlay approach and the temporary exemption from applying IFRS9. **We do not see the need to request additional and distinct disclosures for the transitional period**. We estimate that the information required by IFRS 7 is applicable and sufficient.

The following requirements set out in paragraph 37 c and d of the Exposure draft should be deleted altogether or very significantly reduced:

c) the fair value at the end of the reporting period and the fair value change during the reporting period of financial assets that would be measured at fair value through profit or loss applying IFRS9 because they do not meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of that IFRS; and

(d) information about the credit risk exposure, including significant credit risk concentrations, inherent in financial assets that would meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS9 and are not held for trading or managed on a fair value basis applying that Standard.
To enable users of financial statements to assess those risks, an entity shall disclose by credit risk rating grades the gross carrying amounts of those assets at the end of the reporting period.

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