

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:

Assuralia

- (b) Are you a:

Preparer User Other (please specify)

Assuralia is the Belgian industry organisation for insurance companies, representing about 98% of the insurance premiums of the insurance companies active on the Belgian market.

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

Assuralia represents the sector positions of its members.

- (d) Country where you are located:

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Belgium

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

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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.

- (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?

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.

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?

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Yes No

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

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?

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.

The Amendments result in an improvement compared to a mandatory application of IFRS 9 as from 2018 by all entities. By widening the scope of the temporary exemption from applying IFRS 9 compared to the initial proposal of the IASB and by providing the overlay approach to companies that are not able to apply the temporary exemption, the IASB has found a balanced solution to the very specific and unusual situation of the non-alignment of the effective dates of IFRS 9 and IFRS 17. The endorsement of the Amendments would be conducive to the European public good and should therefore not be postponed.

In Belgium many insurance companies impacted by the non-alignment of the effective dates are able to apply the temporary exemption from IFRS 9. The Belgian insurance companies that are not able to apply the temporary exemption from applying IFRS 9 are part of a larger financial group which is predominantly engaged in activities other than insurance activities. Therefore those financial groups are generally not compared to insurance companies by analysts or users of the

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financial statements, which also explains their intention to apply IFRS 9 as from 2018. The overlay approach provides a necessary alternative to those companies to overcome the accounting mismatches resulting of applying the cost model under IFRS 4 together with the volatility in IFRS 9. The disclosures provided by the users of the overlay increase the comparability of the financial statements of insurance companies applying IFRS 9 and those deferring IFRS 9. We do therefore not agree that financial conglomerates that are not eligible to apply the temporary exemption from IFRS 9 at consolidated level could be placed at a competitive disadvantage compared to the insurance companies that are eligible for the exemption.

Assuralia is of the opinion that (consolidated) financial statements should be prepared based on consistent accounting policies that are applied in a uniform way on an international level. This would guarantee the comparison of companies and financial groups in the insurance sector and would prevent that the temporary exemption from applying IFRS 9 could be applied by other companies or financial groups that could benefit from the temporary exemption from applying IFRS 9, but that are not predominantly engaged in insurance activities. Providing a European exemption (also referred to as top-off) to certain non-eligible groups to nevertheless apply the temporary exemption from IFRS 9 would severely restrict the added value of international accounting rules and would create an un-level playing field.

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.

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.