

EFRAG  
35 Square de Meeûs  
B-1000 Brussels  
Belgium

18 May 2018

Dear Sirs,

***Equity instruments – impairment and recycling discussion paper***

This letter is from 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.

Long-term investments are a significant and critical part of the European economy and the insurance industry is a significant long-term investor. Accounting requirements should not disincentivise long term investments and, therefore, we appreciate EFRAG’s efforts on this important issue for long-term investors such as the insurance industry. We have included below our comments on the measurement models related questions in EFRAG’s discussion paper on “Equity Instruments – Impairment and Recycling”. As such, we have not focused on the presentation and disclosure questions at this time (question 3).

***Q1.1 What are your views on the arguments presented in paragraphs 2.3 – 2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors? Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.***

In line with the position that we have consistently expressed, we support the reintroduction of recycling. We believe that recycling realised gains and losses on equity investments to profit and loss enhances the relevance of the reported financial performance of long-term investors and increases the consistency in accounting for equity investments with that of other investments accounted for at amortised cost and/or fair value through other comprehensive income. Furthermore, it would reduce accounting mismatches between IFRS 9 and IFRS 17.

***Q2.1 What are your views on the arguments presented in paragraphs 2.11 – 2.17? Do you consider that, from a conceptual standpoint, recycling should be accompanied by some form of impairment model? Please explain.***

We understand the conceptual and consistency arguments of accompanying recycling with an impairment model. Therefore, if and when recycling is reintroduced for equity investments, we would understand that an impairment model for equity investments is reintroduced at the same time.

***Q4.2 Which, if either, of the two models do you prefer? Please explain.***

We believe your proposed model with recycling and the associated impairment model similar to the model of IAS 39 for equity instruments classified as AFS, but with guidance to reduce

subjectivity would be more appropriate than the proposed revaluation model in which all declines in fair value below the acquisition cost would be immediately recognised in profit or loss and changes in fair value above the acquisition cost would be recognised in OCI and recycled on disposal.

***Q5.1 Do you support the inclusion of quantitative impairment triggers in an impairment model? If so, should an IFRS Standard specify the triggers, or should management determine them?***

Based on the experience in practice with applying the impairment model for equity securities in IAS 39, we would welcome additional guidance on the meaning of “significant or prolonged”. Such additional guidance could assist in reducing subjectivity and enhancing comparability. We would favour the option proposed in paragraph 4.18(b) requiring reporting entities to define thresholds for both ‘significant’ and ‘prolonged’ as part of their accounting policy, and to explain and disclose them. We would not support the introduction of prescribed “bright-line” quantitative limits as the specified limits may not be appropriate in all circumstances or to all entities.

***Q5.2 If you do not support quantitative impairment triggers, how would you ensure comparability across entities and over time?***

We believe the additional impairment guidance along with the requirement for reporting entities to define thresholds for both ‘significant’ and ‘prolonged’ as part of their accounting policy would help ensure comparability across entities and over time.

***Q6.1 How should subsequent recoveries in fair values be accounted for? Please explain.***

We believe any subsequent recoveries in fair values should be accounted for in profit or loss in the same manner as any other financial instrument under IAS 39 or IFRS 9 would be accounted for.

***Q7.1 Do you consider that the same model should apply to all equity instruments carried under the FVOCI election? If not, why not and how would you objectively identify different portfolios?***

*All equity instruments classified under FVOCI should utilise the same measurement model to determine recycling gains or losses as well as any associated impairment amounts.*

***Q7.2 Do you have any other comments on these considerations?***

We believe that the issues regarding equity instruments classified as FVOCI is not limited to European entities, but is relevant to all IFRS reporters. Applying the changes proposed by the Discussion Paper to only firms applying IFRS as adopted by the EU (“EU IFRS”) would result in a reduction in comparability. Furthermore, many EU IFRS reporters have operations outside of Europe and inconsistency between the accounting model of the European group and local reporting requirements outside of Europe would increase operational complexity. Consequently, it is our view that this matter should be addressed through an amendment to IFRS 9 as issued by the IASB.

We would also like to raise concerns about another topic related to IFRS 9. Under IAS 39, when an entity invests through an investment vehicle (e.g. an investment fund or limited partnership), such investments are normally accounted for as equity investments that are classified as available for sale (at fair value through OCI). Under IFRS 9, these investments are considered to be debt instruments and, as these would normally not meet the “solely payments of principal and interest” criteria, will have to be accounted for at fair value through profit and loss. This creates

income statement volatility and accounting mismatches when these back liabilities that are not accounted through profit and loss under IFRS 17 (e.g. OCI) and is not in line with the business model of long-term investors. We believe that also this matter should be addressed through a further amendment to IFRS 9.

We would be pleased to discuss this matter further with you.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Luigi Lubelli', written over a printed name and title.

Luigi Lubelli  
Chairman  
*European Insurance CFO Forum*