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Re : EFRAGs draft comment letter on ‘Exposure Draft IASB ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts’.

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter on ‘Exposure Draft IASB ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts’ (the “ED”).

We are of the opinion that IFRS 9 Financial instruments is an important standard that improves the financial reporting of financial assets and liabilities. However, we share the concerns on the misalignment of the effective dates of IFRS 9 and the new insurance contracts standard. Therefore, we appreciate the efforts of the IASB to address these concerns.

We agree with EFRAG that the current proposals in the ED would lead to a situation in which companies generally recognised as insurers cannot apply the temporary exemption (“deferral approach”). This is due to the proposed approach to assess whether an entity is predominantly insurer by only considering its liabilities related to contracts in scope of IFRS 4 in relation to total liabilities. We can demonstrate this by the following short survey that was performed based on published financial statements of 7 insurance groups that are recognised in the Dutch market as insurance groups:

<u>Entity/Group</u>	<u>Insurance liabilities as % of total liabilities</u>
Achmea	74%
Aegon	69%
a.s.r.	79%
Atradius	56%
Delta Lloyd	58%
NN	81%
Vivat	82%

The above demonstrates that for the 7 groups that are recognised in the Dutch market as insurance groups only a minority would potentially qualify as a predominant insurer under the criteria in the ED. Whilst this short survey is only limited in scope, this issue will equally apply to many more insurance entities/groups in the Netherlands. Given the identified concerns on the misalignment of the effective dates of IFRS 9 and the new insurance contracts standard the temporary exemption is seen as the preferred solution from the Dutch perspective.

In general, we concur with the comments in your draft comment letter. We certainly support that the temporary exemption in general should not be applied to banking activities. We also support EFRAG in the comment that the overlay approach should be optionally available for those entities that would like to apply this to avoid accounting mismatches and in its comments on this subject.

We also support EFRAG in its view that the temporary exemption from applying IFRS 9 should be available to all entities whose predominant activity is to undertake insurance activities. In our view this predominance assessment should be principles-based. This should be based on an assessment that the predominant activity is performing insurance business, taking into account all relevant facts and circumstances. This should be demonstrated by e.g. the fact that a material part of the entity's business is issuing contracts or the fact that the entity is a regulated insurance business. We believe that such a principles-based approach is more aligned to the principles-based nature of IFRS and would avoid unintended exclusion of insurance entities from the deferral approach. To avoid improper application we would suggest that the standard includes disclosure requirements that require an entity to disclose how it has reached its conclusion that its predominant activity is insurance business. To the extent that a quantitative approach is part of such assessment we concur with EFRAG that it should include all liabilities that are related to an entity's insurance business, not only liabilities in scope of IFRS 4. We do not support EFRAG's suggestion to set the threshold at a substantially higher level than currently proposed in the ED as mentioned in paragraph 57 of the draft response as this open suggestion could lead to a new definition and threshold that might still prevent groups recognised as insurance group to apply the exemption. In addition to a quantitative approach we recommend the IASB to include in the implementation guidance clear examples of activities that can be considered as insurance business.

If a reporting entity has insurance as its predominant activity, this would lead to a situation that for banking activities included in the consolidated financial statements, application of IFRS 9 is also deferred. This would be in line with our preferred application of uniform accounting principles within the financial statements. In respect of these groups, we consider that banking entities reporting under IFRS will have to apply IFRS 9 in their stand-alone financial statements. In that case disclosure on the banking business applying IFRS 9 would already be available. We would therefore support a disclosure requirement for the consolidated financial statements of the group on the difference between applying IFRS 9 in the stand-alone bank financial statements for the banking activities and the reported figures for these banking activities in the consolidated financial statements.

In the opinion of the DASB the assessment of predominance should in principle be performed at the reporting entity level. We do however recognise that this might lead to a situation that the deferral approach would not be available to entities with mixed financial activities (i.e. bank assurers or financial conglomerates) that have significant insurance activities. We support in general the reporting entity level approach because it avoids a breach in uniformity

of accounting policies, but believe that these exceptional circumstances call for a pragmatic solution. In that respect we support the view that it should also be possible to perform the predominance assessment at a level below the reporting entity. We would however limit this possibility to those situations where a mixed financial group has significant insurance activities and the banking business is performed in entities that are separate from the insurance entities. In such a situation, for transfers of financial assets between an IAS 39 and an IFRS 9 environment and vice versa within a reporting entity we support the EFRAG view that the originating accounting should be continued to avoid earnings management.

Regarding the other questions we concur with EFRAG's proposed responses. In the appendix to this letter, we have included our responses to the questions raised by EFRAG in the draft response.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Sampers', with a long horizontal stroke extending to the right.

prof. dr. Peter Sampers
Chairman Dutch Accounting Standards Board

Question to constituents

19 In its preliminary outreach, EFRAG has encountered existing, albeit limited, appeal for the overlay approach. Does your company wish to apply the temporary exemption from IFRS 9 or the overlay approach? Please explain the circumstances determining your view.

Question to constituents

Please respond to these questions in light of the preamble to this draft comment letter highlighting that EFRAG is seeking facts and evidence as assistance in helping finalise its assessments and proposals.

Application of the overlay approach

- 38 Do you agree with the extra costs identified in paragraph 36? If so, do you consider these costs to be significant? Please explain and provide quantifications to the extent possible.
- 39 Do you consider that the application of the overlay approach will imply that such extra costs as stated in paragraph 36 above will limit its applicability? If so, could you identify and quantify, if possible, which extra costs (on top of implementing IFRS 9) are the most significant?
- 40 Other than costs, are there any other reasons why an insurer would not elect to apply the overlay approach?
- 41 If you elect to apply the overlay approach, would you change the way the eligible financial assets are being reported internally?

Presentation

- 42 Do you agree that the optionality in presentation should be limited to Alternative A as stated in paragraph 28 above?
- 43 Referring to paragraph 34 above, do you consider that the amendments to IFRS 4 which may arise due to the ED should include further explanation about the presentation of the overlay adjustment in OCI?

We anticipate that only a limited number of companies will apply the overlay approach. Most entities with predominant insurance activities will wish to apply the temporary exemption through the deferral approach. From our understanding, most companies will not use the overlay approach due to both the extra costs involved, which we understand are significant, and the fact that the overlay approach would still lead to the need for a reassessment of IFRS 9 when the phase 2 standard for insurance contracts would become applicable.

Questions to constituents

Please respond to these questions in light of the preamble to this draft comment letter highlighting that EFRAG is seeking for facts and evidence helping finalise its assessments and proposals.

Widened predominance criterion

- 70 How restrictive is the assessment of predominance as proposed by the IASB? Please provide quantitative evidence.
- 71 Would the proposal in paragraphs 57 – 64 above achieve the objectives highlighted by EFRAG (i.e. avoid a breach in level playing field in the insurance sector and inclusion

of banking activities)? If not, what formula would you recommend for the assessment of predominance, and why?

72 Do you think that the proposal above leads to a predominance criterion that is practical, auditable and comparable? Please explain.

73 Taking into account the widening of the predominance criterion, do you agree that the quantitative threshold should be at a level that is substantially higher than three-quarters of an entity's total liabilities? Please explain.

The "regulated entity" criterion

74 Do you agree with the arguments in paragraphs 65– 69 above? If you do not and still believe that the regulated criterion has a role to play, please explain why and how it would work.

75 Is the regulatory consolidation scope always identical to the IFRS consolidation scope? If not, please explain the difference(s).

General

76 EFRAG currently considers that eligibility for the temporary exemption of IFRS 9 requires that entities/activities issue material insurance contracts within the scope of IFRS 4. Do you agree with this materiality threshold? If not, what do you suggest instead? Please explain.

77 Is this condition necessary when relying on the "regulated entity" criterion? What are the circumstances in which an entity would be supervised by an insurance regulator and not issue insurance contracts within the scope of IFRS 4? What are the effects of changing from IAS 39 to IFRS 9 to those entities?

78 If you consider that eligibility for the temporary exemption from applying IFRS 9 should not be based on predominance or on regulation, what principle(s) should be applied, and how would you test these principles?

We concur that the current predominance criteria as proposed in the ED would lead to a situation that a large number of entities which are recognised as insurance entities/groups will not be able to apply the temporary exemption. We can demonstrate this by the following short survey that was performed based on published financial statements of 7 insurance groups that are recognised in the Dutch market as insurance groups:

<u>Entity/Group</u>	<u>Insurance liabilities as % of total liabilities</u>
Achmea	74%
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Delta Lloyd	58%
NN	81%
Vivat	82%

The above demonstrates that for the 7 groups that are recognised in the Dutch market as insurance groups only a minority would potentially qualify as a predominant insurer under the criteria in the ED. Whilst this short survey is only limited in scope, this issue will equally

apply to many more insurance entities/groups in the Netherlands. Therefore, we do not support the criteria as proposed in the ED.

In our view this predominance assessment should be principles-based. This should be based on an assessment that the predominant activity is performing insurance business, taking into account all relevant facts and circumstances. This may therefore be demonstrated by e.g. the fact that a material part of the business of the entity is issuing insurance contracts or the fact that the entity is a regulated insurance business. We believe that such a principles-based approach is more aligned to the principles-based nature of IFRS and would avoid unintended exclusion of insurance entities from the deferral approach. To the extent that a quantitative approach is part of such assessment we concur with EFRAG that it should include all liabilities that are related to an entity's insurance business, not only liabilities in scope of IFRS 4. We do not support EFRAG's suggestion to set the threshold at a substantially higher level than currently proposed in the ED as mentioned in paragraph 57 of the draft response as this open suggestion could lead to a new definition and threshold that might still prevent groups recognised as insurance group to apply the exemption. In order to improve consistent application we recommend the IASB to include in the implementation guidance clear examples of activities that can be considered as insurance business.

To avoid improper application we would suggest that the standard includes disclosure requirements that require an entity to disclose how it has reached its conclusion that its predominant activity is insurance business.

If a reporting entity has insurance as its predominant activity, this would lead to a situation that for banking activities included in the consolidated financial statements, application of IFRS 9 is also deferred. This would be in line with our preferred application of uniform accounting principles within the financial statements. In respect of these groups, we consider that the banking entities reporting under IFRS will have to apply IFRS 9 in its stand-alone financial statements. In that case disclosure on the banking business applying IFRS 9 would already be available. We would therefore support a disclosure requirement for the consolidated financial statements of the group on the difference between applying IFRS 9 in the stand-alone bank financial statements for the banking activities and the reported figures for these banking activities in the consolidated financial statements.

Questions to constituents

- 88 Should an entity assess its predominant activity at the reporting entity level or below the reporting entity level or both? Please explain your view.
- 89 In your view, how can the temporary exemption from applying IFRS 9 below the reporting entity level be determined in a way that ensures the eligibility of relevant entities and allows for comparability between entities? Please explain your view.
- 90 What are the expected costs involved in the implementation of the temporary exemption from applying IFRS 9 at reporting entity level or below reporting entity level (including disclosures)? Please provide evidence, including quantitative evidence to the extent feasible.
- 91 Which alternative for the accounting of transfers as stated in paragraph 82 to 87 above would be most appropriate for the temporary exemption from applying IFRS 9 below reporting entity level? Please explain why.

In the opinion of the DASB the assessment of predominance should in principle be performed at the reporting entity level. We do however recognise that this might lead to a situation that the deferral approach would not be available to entities with mixed financial activities (i.e. bank assures or financial conglomerates) that have significant insurance activities. We support in general the reporting entity level approach because it avoids a breach in uniformity of accounting policies, but believe that these exceptional circumstances call for a pragmatic solution. In that respect we support the view that it should also be possible to perform the predominance assessment at a level below the reporting entity. We would however limit this possibility to those situations where a mixed financial group has significant insurance activities and the banking business is performed in entities that are separate from the insurance entities. In practice, mixed financial groups operate in segments that perform either insurance operations or other activities. The application of the temporary exemption should than be limited to the segment that would pass the predominance test.