

Carlos Montalvo
Executive Director

EFRAG
Mr Roger Marshall
Acting President
Square de Meeus 35
B-1000 Brussels
Belgium



EIOPA-15/632
17 July 2015

EIOPA's communication to EFRAG on IFRS9

Dear Mr Marshall,

EIOPA appreciates the opportunity to share with you the Authority's views on the endorsement of IFRS 9 in the European Union.

As a point of departure we believe that IFRS 9 introduces important amendments to IAS 39 Financial Instruments being, first and foremost, an "expected loss" model to assess the impairment of financial assets and consequential changes to the classification and impairment of financial assets measured at fair value through other comprehensive income and those measured at amortised costs. In our opinion, IFRS 9 is a significant improvement in accounting for financial instruments that is also relevant for insurance and reinsurance undertakings.

Considering the effects of IFRS 9 on European insurance and reinsurance undertakings we would like to indicate that:

- (1) IFRS 9 triggers reclassifications out of the IAS 39 categories "available for sale" and "held to maturity" into a measurement at fair value through profit or loss for financial assets that fail the "solely payments of principal and interest test". This will potentially increase the number of financial assets for which valuation changes will be recorded in profit or loss.
- (2) IFRS 9 provides for the option to measure equity instruments at fair value through other comprehensive income (OCI), without the possibility to recycle value changes in profit or loss.
- (3) IFRS 9 might extend the scope of financial instruments measured at amortised cost, depending on the nature of the assets and the business model, which potentially decreases the number of financial assets measured at fair value through profit or loss or through other comprehensive income. Due to the principle-based approach the tainting rule could be removed.

EIOPA has been engaged in a dialogue with European insurance and reinsurance undertakings, industry bodies and audit firms to better understand the significance of the individual and aggregate effects on insurers' performance reporting in case IFRS 9 would be applied before a future accounting standard for insurance contracts becomes applicable. Assessing the overall effects, we conclude that those mainly depend on the volume of financial assets that are required to be reclassified, the measurement of the liabilities and, in particular,

on the extent to which insurance liabilities, so called participating contracts, are linked to those assets.

EIOPA has been of the view, also in its comment letter on ED Insurance Contracts, that aligned application dates of IFRS 9 and a future accounting standard for insurance contracts would be strongly desirable to limit the costs of introducing changes in the accounting systems and to allow for a holistic approach to the application of new accounting standards for both assets and liabilities of insurance and reinsurance undertakings. In that sense, EIOPA believes that any other solution is sub optimal.

A deferral of IFRS 9 for insurance and reinsurance undertakings, in particular if granted on an optional basis, would come at the price of increased complexity and lack of comparability as well as inconsistent accounting in consolidated financial statements. Moreover, a deferral will require the development of new amendments to the relevant accounting standards and correspondent guidance that may create uncertainty and operational challenges for preparers.

On the other hand, if IFRS 9 is applied by insurance and reinsurance undertakings before the new insurance contracts standard is applied this will result in additional costs and efforts for both preparers and stakeholders of financial statements and could lead to a temporary increase in accounting mismatches for European insurers and other sources of volatility in the profit or loss statement.

Nevertheless, EIOPA believes that insurance and reinsurance undertakings could be supported, and stands ready to contribute, in finding technically sound solutions to use the options provided by IFRS 9, for example the option for equity instruments, and to make best use of "fresh start accounting", the provision that would allow insurers to revisit the IFRS 9 options elected at initial application when applying the future insurance accounting standard. Further, even if challenging, it seems crucial to look into providing guidance on adequately implementing the flexibility provided by IFRS 4, and, in particular, to explore appropriate accounting policy changes to foster more relevant valuation. Acknowledging that IFRS 4 is a flexible standard, implementation guidance would be key to achieve comparability and consistent application.

In addition to that, the IASB could investigate relevant presentation solutions for the balance sheet and the profit or loss statement to address the impact of IFRS 9 in connexion with insurance contracts.

EIOPA believes that in order to evaluate the benefits and the challenges of each approach

- deferral of IFRS 9 on an optional basis for regulated insurers to be only granted for a maximum period of two years and the necessary amendments to accounting standards and guidance to be developed by the IASB; or
- immediate application of IFRS 9 and the relevant further application guidance to be developed by the IASB

it is decisive that EFRAG and the IASB develop a very concrete picture of the necessary volume of further accounting guidance for both approaches, the costs and efforts to implement the approaches and the corresponding efficiency in mitigating further accounting mismatches and volatility. Only then we will be in a position to take an informed judgement on the two approaches.

Nevertheless, based on objective facts and figures at EU level, if the final conclusion will be that both approaches will create similar additional costs and

complexities for both preparers and stakeholders of financial statements, EIOPA could envisage seeing IFRS 9 applied by insurance and reinsurance undertakings without any delay.

Finally, EIOPA believes that the EU institutions should strongly urge the IASB to give absolute priority to the finalisation of the future accounting standard for insurance contracts in order to ensure comprehensively portraying both assets and liabilities of insurance and reinsurance undertakings eliminating accounting mismatches and better reflecting the insurance business models.

Yours sincerely,



A handwritten signature in blue ink, appearing to read 'C. Montalvo', is positioned above a solid blue horizontal line.

Carlos Montalvo