To: Mr Roger Marshall
Acting Chairman
EFRAG Supervisory Board
35 Square de Meeûs
1000 Brussels

From: Economics & Finance department

Date: 16 November 2015

Reference: ECO-FRG-15-274

Subject: Profit or Loss versus OCI bulletin

Dear Mr. Marshall,

Insurance Europe welcomes the opportunity to comment on the EFRAG Bulletin "Getting a Better Framework – Profit or Loss versus OCI". We firmly believe that an appropriate design of the revised and amended Conceptual Framework is of essential importance as a basis for future standard setting activities of the International Accounting Standards Board (IASB). We appreciate that EFRAG identified the use of other comprehensive income (OCI) presentation as an aspect of significant importance for the revised Conceptual Framework and that it decided to stimulate the related discussions at a European level via the Bulletin.

In general, we agree with many of the Bulletin's tentative conclusions such as the usefulness of the role of the business model, the need for different measurement bases to provide relevant information, and the need to allow recycling for all amounts recognized in OCI.

Please note below our comments to several questions raised in the Bulletin:

Question 1

Insurance Europe supports a mixed measurement model for assets and liabilities.

We agree with the suggested mixed measurement approach as a basis for IFRS standard setting because a single measurement basis for all assets and liabilities would neither provide the most relevant information to investors nor to other users of financial statements.

Furthermore, we fully agree with the IASB's assessment in the Conceptual Framework ED which supports that in some cases, more relevant information is provided by using a current value measurement basis in the statement of financial position and a different measurement basis to determine the related income or expenses in the statement of profit or loss.

In addition, we believe that the decisions with regard to a particular measurement basis for assets or liabilities should also consider any linkage that exists between assets and liabilities. This is particularly relevant for insurance companies and the proper reflection of their business model due to the inherent linkage between insurance liabilities and underlying assets.

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Question 2

Financial statements can only be meaningful for investors and other users of financial statements if relevant standards allow to reflect how a reporting entity conducts its business.

Specifically, and similar to EFRAG, we also think that financial statements can only be meaningful for investors and other users of financial statements if relevant standards allow to reflect how a reporting entity conducts its business.

The insurers' business model is such that the insurance liabilities' profile is the main driver of investment behaviour. Insurance liabilities are to a large extent long-term and predictable, with stable cash-flow profiles. Therefore, insurers are substantially able to match long-term liability profiles with investments held for the long term. Because most insurance policies create predictable and long-term liabilities for insurers, they can invest in both long-term and illiquid assets. The insurance business model is centred on asset-liability management (ALM) in which insurance liabilities, guarantees and the related financial and non-financial assets backing them (including derivatives) are managed together.

ALM for insurers means that insurers manage assets according to the insurance liability profile in order to meet obligations towards policyholders. Because of the variety in insurance products and regulatory provisions, an insurer can follow different ALM strategies. Accounting requirements that deal with individual ALM components in isolation, separate from the overall ALM strategy, can result in measurement and presentation that is entirely inconsistent and does not adequately reflect the insurance business model and may distort long term economic decisions. Therefore, the use of the OCI presentation has to remain optional.

Question 4

Recycling of items in OCI is a necessity as a result of applying different measurement bases for the financial statements.

Insurance Europe disagrees with a rationale that could store the measurement of items in OCI indefinitely without the possibly to recycle these in profit or loss. For example, the prohibition on recycling for equity instruments in IFRS 9 means that this approach is in general inconsistent with the nature of the insurance liabilities. This is particularly so for participating contracts, where the investment returns (including gains and losses) are ultimately passed to the policyholder and hence expensed in the income statement.

Also for Property & Casualty and for reinsurance business, recycling from OCI to profit or loss is indispensable to achieve proper accounting results in line with underlying investment strategy. In this regard we also disagree with the earnings management argument. We strongly believe that accounting should properly reflect the effects of economic decisions and that the IASB should base its standard setting activity on this objective. Therefore, also for P&C and for reinsurance business the prohibition of recycling on FVOCI equities disadvantages the related investments.

Question 5

We support the current balance of being able to provide current and cost-based measurements where appropriate.

Insurance Europe believes the use of current values should not be quantified in terms of greater or lesser use. Rather, it is more important that the appropriate measurement basis is allowed so that companies may provide meaningful information to their investors. For example, we strongly advocate the use of OCI or P&L measurement and presentation categories in both IFRS 4 Phase II and IFRS 9 ('two-sided OCI and P&L approaches'), depending on the insurer's asset liability management strategy and the associated information needs of investors and other capital providers. This is necessary to avoid accounting mismatches and to allow the insurer to have meaningful reporting in line with its long-term business model.

Question 6

The use of updated discount rates can be appropriate but we believe the presentation of these changes, in either OCI or P&L, should be based on an accounting policy choice.

The IASB has decided for insurance contracts project (IFRS 4 Phase II) that for the purpose of the balance sheet the current fulfilment value of insurance liabilities has to be determined. In such a case the requirement to use the updated discount rates is a reasonable and consistent approach. However, the IASB has also acknowledged that it has to be safeguarded that the effects of these periodical changes in current discount rates are not overshadowing the relevant performance reporting in the income statement as the related effects reverse over time. Therefore, the IASB decided to allow the OCI presentation for effects of discount rate changes as an accounting policy choice (to be exercised at a portfolio level). We fully support this IASB decision and appreciate that EFRAG expressed the same view in its comment letter of 15 November 2013 regarding the IASB's revised Exposure Draft ED/2013/7 Insurance Contracts as issued by the IASB on 20 June 2013.

Feel free to contact me if you have any further questions or comments.

Sincerely,

Olav Jones
Deputy Director General / Director Economics & Finance