Roger Marshall
Acting President
EFRAG
35 Square de Meeûs
1000 Brussels

30 June 2015

Subject: Comments on EFRAG's Draft Endorsement Advice of IFRS 9

Dear Mr. Marshall:

This letter has been drafted by 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.

We appreciate the constructive dialogue (supported with the quantitative analysis provided by the CFO Forum) we have had with the EFRAG Board and staff to date regarding the position of the insurance industry on the endorsement of IFRS 9 Financial Instruments. We would like to further reinforce in this letter our main comments on the EFRAG's draft endorsement advice to the European Commission on the EU adoption of IFRS 9.

European insurers support the endorsement of IFRS 9, provided that the effective date for insurers is aligned with the future standard for insurance contracts.
Insurance liabilities and underlying financial instruments are inherently interrelated due to the asset and liability matching nature of our business model. Therefore, consistent with the conclusion reached in Appendix 3 of EFRAG's Draft Endorsement Advice, for insurance businesses, a global solution is required to align the effective dates of the future standard for insurance contracts ("IFRS 4 Phase II") and IFRS 9. In our opinion, the European Commission should request the IASB to permit the deferral of the effective date of IFRS 9 for insurance businesses to align it with the effective date of IFRS 4 Phase II. However, if this global solution will be unavailable, the European Commission should enable a deferral in Europe for insurance companies.

Adopting IFRS 9 before IFRS 4 Phase II will have a significant negative impact on the insurance industry and the users of insurers' financial statements.
We agree with EFRAG's assessment in the Draft Endorsement Advice that until IFRS 4 Phase II is adopted, the revised accounting for financial instruments under IFRS 9 will give rise to fundamental additional accounting mismatches in the income statement of insurers. This would result in the financial statements not reflecting the economic performance of insurers. Applying IFRS 9 in isolation, before IFRS 4 Phase II will give rise to a temporary reporting basis which will need to be altered once IFRS 4 Phase II is effective. The impact on many users of the financial statements will be negative and costly due to the confusion that will arise. It is also burdensome for preparers to make significant financial reporting changes at different dates, and wasteful where changes have to be made and then reversed.

A temporary deferral of IFRS 9 for insurers can be achieved in a practical manner.
We believe that any concerns regarding a temporary deferral of IFRS 9 for insurance business can be addressed. The identification of an insurance business is manageable, for example by reference to regulated insurers. The application of a deferral for insurers within a conglomerate can be addressed through segmental reporting and additional disclosures, with business model-based accounting policies for financial instruments. Furthermore, provisions to prevent accounting arbitrage could be envisaged for intra-group transactions within conglomerates.

Features in the current IFRS 4, or amendments thereto, are not an adequate alternative for the deferral of IFRS 9.
We do not believe that existing features in the current IFRS 4 (such as shadow accounting and the option to apply current market interest rates) or potential extensions to these features (such as an extended scope for shadow accounting) should be considered as adequate alternatives for the deferral of IFRS 9. Such features or extensions, if at all workable in an acceptable manner to all stakeholders, would be complicated and time consuming to achieve and would still result in multiple accounting changes for insurers in a short period of time. Given the analysis and process required, we strongly believe that the time that would be necessary for amending the current IFRS 4 and implementing the resulting changes by insurers, even if achievable, are not compatible with an effective date of 1 January 2018. We believe that this time would be better utilised in finalising IFRS 4 Phase II.

Our more detailed answers to the EFRAG's consultation questions are included in the attachment to this letter.

We look forward to continuing the constructive dialogue with the EFRAG board and appreciate the Board members' willingness to engage on this complex but important issue.

Please do not hesitate to contact us if you would like to discuss any aspect of our comments in more detail.

Yours sincerely,

Nic Nicandrou
Chair
European Insurance CFO Forum

Olav Jones
Deputy Director General
Insurance Europe

Cc: Francoise Flores, EFRAG TEG Chair