FÉDÉRATION
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Banking supervision
And Accounting issues Unit
The Director

Paris, December 13th, 2016

EFRAG's Draft Letter to the European Commission Regarding Endorsement of Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Amendments to IFRS 4

Dear Mr Gauzes,

The French Banking Federation welcomes the opportunity to comment on the EFRAG draft letter to the European Commission regarding the endorsement of applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

The IASB issued an amendment to address the concerns related to the different effective dates of IFRS 9 and the forthcoming insurance contracts standard until the forthcoming insurance contracts Standard is effective.
The Amendments provide:

- an optional, temporary exemption from the application of IFRS 9 for entities whose activities are predominantly insurance at the reporting entity level ;
- an alternative approach (the overlay approach) that would be available to financial conglomerates and which substantially mitigates the financial reporting-related concerns.

Only the alternative approach is available to the entire insurance industry and especially, for financial conglomerates. The temporary exemption criterion – as it is designed by the IASB, i.e. applied at the reporting level entity and for entities that have predominant insurance activities – excludes insurance activities carried within banking conglomerates. Therefore, it generates distortions of competition within the insurance sector. Insurance entities will be treated differently depending on whether the entity is an insurance market player or insurance's entity within a conglomerate.

Mr Jean-Paul GAUZES
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We appreciate the efforts of the EFRAG towards the International Accounting Standards Board (IASB) and totally support the EFRAG's position which considers that the "*Amendments do not achieve a completely level playing field within the insurance sector*". We are convinced that ensuring a level playing field between all entities that have insurance activities is a key element when defining the deferral of IFRS 9.

We advocate for the deferral approach to be applied below reporting entity level. This position considers the competitive disadvantages that a different approach will generate and is fully in line with the legal analysis that we have commissioned and submitted to the European Commission and to the EFRAG last June.

The current situation (i.e. financial conglomerates whose activities are not predominantly connected with insurance in the way defined by the IASB are not eligible to apply the optional temporary exemption from applying IFRS 9 until 2021) could lead to a competitive disadvantage by insurance companies that are part of financial conglomerates against insurance groups. It is contradictory that EFRAG mentions that there is no material evidence of competitive issues when the draft advice states that 20% - 25% of insurance companies will not be eligible for temporary exemption (appendix § 27). Moreover, the impact study of IFRS 9 for insurance activities that the French bank and insurance industry has provided to the European Commission and to the EFRAG last June confirms the importance of the contribution of bancinsurers to the French and European insurance market. In France, they are responsible for 62% of all life insurance liabilities and of 22% of all insurance liabilities in Europe.

Furthermore, users of financial statements will find it difficult to understand the additional accounting mismatches and resulting volatility in profit or loss that cannot be offset by using existing options under IFRS 4 Insurance Contracts to address temporary volatility (only the temporary exemption from applying IFRS 9 helps mitigate all the concerns of the misalignment).

Having to apply the classification and measurement requirements of IFRS 9 before the new insurance contracts Standard may be difficult for companies. Even if there was the possibility to later reclassify financial assets backing insurance contracts, it would be very difficult to explain to users of financial statements.

Accordingly, the temporary exemption criterion should be defined below the reporting entity in order not to exclude entities that are exclusively or mainly related to insurance activities / entities undertaking insurance activities that are not predominant insurers.

Besides, under IFRS 9, unrealized gains on assets held as OCI at the transition date which fail the SPPI test will be frozen in retained earnings and will never be taken to income statement. Thus, during the transition period to IFRS 9, insurers may have an incentive to manage their assets that have accumulated unrealized gains in order to recognize such gains in income statement prior to the transition to IFRS 9. However, the length of the transitional phase will be significantly different between insurance entities within conglomerates and pure insurance entities benefiting from deferred application, creating, therefore, distortion of competition between insurers.

Finally, we do not agree with the EFRAG's statement in §41 of the appendix 3 considering that "*requiring bank-led entities that undertake insurance activities to apply IFRS 9 at the same time as other bank-led entities will avoid competition issues between bank-led groups and pure banks*". As material non-insurance activities, i.e. banking activities, will not be included in the scope of the temporary exemption criterion, IFRS 9 will apply to all entities undertaking banking activities and, therefore, no competition issues would arise within the banking sector. As, indeed, different accounting policies will apply within the banking conglomerate, we will be pleased to contribute with the EFRAG to find a solution that will mitigate the issue, and notably, we would suggest that a relevant information on that matter could be provided in the accounting statements.

We hope you find these comments useful and we would be pleased to provide any further information you might require,

Yours sincerely,

Bertrand Lussigny