



ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

8 February 2016

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir,

Re: IASB Exposure Draft – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

We are pleased to have the opportunity to provide input to the IASB on this important Exposure Draft. These comments have been prepared by a task force appointed by the Insurance Accounting Committee of the International Actuarial Association (IAA), whose members are listed in [Appendix A](#) to these comments. Please note that this response has not been through the full IAA due process and, as such, represents the views of the task force only.

In the paragraphs below we provide responses to the questions posed in the Exposure Draft for which we feel we can make a meaningful contribution.

Q1 Do you agree that the IASB should seek to address these concerns? Why or why not?

We agree that the IASB should seek to address those concerns.

In addition to the three concerns highlighted in the exposure draft, we believe that the misalignment of the effective dates of IFRS 9 and the new insurance contracts Standard raises a number of other concerns.

- Requiring two significant changes to insurance company accounts over a short period of time will be unhelpful and potentially confusing to users of financial statements, particularly during a period where there are major changes to capital reporting (e.g. the introduction of global capital standards and Solvency II in Europe). IFRS 9 affects the accounting of the vast majority of the assets in which insurers invest whereas the revision to IFRS 4 affects the accounting of the vast majority of insurers' liabilities.
- The interaction between assets and liabilities is an intrinsic feature of all insurance business, in particular participating business. Consequently, it is essential that assets and liabilities are accounted for in a consistent manner. A process where changes to asset accounting are introduced two to three years before changes to liability accounting does not result in meaningful information being provided to users of financial statements. Insurers will need to redesignate their assets twice within a short period of years in order

to align the valuation of assets and liabilities. This would be more costly than if the changes to asset and liability accounting were required at the same time.

Q2 Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not?

While an overlay approach may be preferential for some organizations, it does not address all of the issues resulting from the different effective dates of IFRS 9 and the new insurance contracts Standard. In particular, the overlay approach does not resolve the issue of volatility in shareholder equity resulting from the different effective dates and still results in two changes to insurance company accounting over a short period of time. All of the issues arising from the misalignment of effective dates can, however, be resolved by the temporary exemption from applying IFRS 9. Consequently, we agree that there should be both an overlay approach and a temporary exemption.

Q3 The overlay approach:

- (a) *Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why?*
- (b) *Do you agree with the proposed approach to presentation? Why or why not? If not, what do you proposed instead and why?*
- (c) *Do you have any further comments on the overlay approach?*

We agree with the proposed scope of assets and the proposed approach to presentation should an entity choose to adopt the overlay approach.

Q4 The temporary exemption from applying IFRS 9

- (a) *Do you agree that the eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity's predominant activity is issuing contracts within the scope of IFRS 4? Why or why not? If not, what do you propose instead and why?*
- (b) *Do you agree that an entity should assess its predominant activity in this way? Why or why not?*
- (c) *Do you agree with the proposal that an entity would assess its predominant activity at the reporting entity level? Why or why not? If not, what do you proposed instead and why?*

(a) While we agree that eligibility for the temporary exemption should be based on whether an entity's predominant activity is insurance business such an assessment will likely result in only a small population of insurers qualifying for the temporary exemption. For example, insurance entities that issue significant volumes of unit linked contracts, which are classified as insurance business for solvency purposes but investment contracts under IFRS, may not qualify for the temporary exemption. This will result in a lack of comparability within the insurance sector for such companies.

(b) We do not agree that an entity should assess its predominant activity by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities. Such an assessment would not take account of several types of liability that are related to insurance activity, for example derivative and funding liabilities. Moreover, a qualitative test determined using a liability measure would not take into account the low level of liabilities for some types of insurance product (e.g. certain pure protection businesses). A broader principles-based approach, reflecting both qualitative and quantitative measures, including whether an entity is a regulated insurance entity, would be more appropriate to determine whether the entity's predominant activity is insurance business.

(c) We agree with the proposal that an insurance group would assess its predominant activity at the reporting entity level. However, we note that an alternative solution would be valuable for insurance entities that are part of a financial conglomerate (e.g. bancassurers).

Q5 Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?

- (a) *Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional, why or why not?*
- (b) *Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?*

Yes, both approaches should be optional. We also believe that all entities should be able to adopt IFRS 9 earlier if so desired.

We agree that entities should stop applying the overlay approach or temporary exemption from the beginning of any annual reporting period for which the reporting entity starts apply the new insurance contracts standard.

Q6 Expiry date for the temporary exemption from applying IFRS 9

- (a) *Do you agree that the temporary exemption should have an expiry date? Why or why not?*
- (b) *Do you agree with the proposed expiry date of annual reporting period beginning on or after 1 January 2021? If not, what would you propose and why?*

We agree that the exemption should have an expiry date and that the date should be aligned, as closely as possible, with the effective date of the new insurance contracts Standard. 1 January 2021 may be a reasonable date as long as the insurance contracts standard is issued by 2017.

As noted above, these comments have been prepared by a task force appointed by the Insurance Accounting Committee of the IAA. If, upon reading these comments, you identify any points that you wish to discuss or obtain further insight regarding them, please do not hesitate to contact the undersigned, care of the [IAA Secretariat](#). We will be pleased to develop these ideas further with you.

Yours sincerely,



William Hines
Chair of the Insurance Accounting Committee

Appendix A

Members of the task force appointed by the Insurance Accounting Committee (8 February 2016)

Robert Buchanan
Micheline Dionne
Stefan Engeländer
Dave Finniss
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Max Happacher
William Hines
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