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Ref.: CRPG/PKF/HBL/PPA/EAS

Dear Mr Marshall,

Re: FEE comments on the Letter from EFRAG to the European Commission re further information related to the endorsement of IFRS 9

- (1) FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with our comments to the letter in reference above.
- (2) From our comments to the EFRAG's draft endorsement advice on 22 June 2015¹, **we reiterate our support for a swift endorsement of IFRS 9 in the EU. We also reiterate our support for solutions to address issues arising from the non-alignment of the effective date of IFRS 9 and the future standard on insurance contracts for those institutions with significant insurance activities.** Preparers will need time to implement the requirements of the new standard but will be hesitant to begin this process until uncertainty surrounding the endorsement process is resolved.
- (3) We observe that the issue relating to the insurance industry continues to be of concern in Europe. We are also aware that similar concerns are expressed in other jurisdictions. Therefore, **FEE reiterates its support for an international solution for this matter as a desirable outcome.**
- (4) FEE acknowledges that, due to the complexity of the issue to be solved and as any solution will be of temporary nature, it cannot be expected to be perfect. FEE recognises that decisions will need to be made for the trade-off between different objectives. Overall, FEE considers important that any solution needs to ensure, to the extent possible, implementation at reasonable cost. It is equally important that the degree of complexity of any solution does not become a limiting factor for its implementation, audit, and understanding by the users of financial statements.
- (5) In that respect, FEE shares on a preliminary basis EFRAG's view that a deferral solution would be preferable. We support investigating further the scope of application of the deferral approach as it currently seems somewhat restrictive in practice for European companies.

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http://www.fee.be/images/publications/accounting/20150616_Letter_to_EFRAG_DEA_on_IFRS_9.pdf

FEE comments on the two IASB's tentative alternative options

A. Deferral approach

- (6) FEE believes that the deferral solution, following the IASB tentative decisions in September, could work in practice without too much complexity. However, due to the scope requirements of the IASB's preliminary proposals (passing an insurance activities' predominance test at the reporting entity level), FEE acknowledges that some insurers in Europe, and more generally the insurance activities included in the financial statements of banking groups, would not qualify. Such companies/activities would have to apply IFRS 9, either fully or following the overlay approach, facing the complexities that have been identified for each of them.
- (7) As a result, considering the overall objectives outlined above, we would support further investigation of a deferral solution around a scope that goes below the reporting entity level, as suggested by EFRAG. However, note that FEE has not performed any research so far to assess how such requirements would be framed and whether this solution would work in practice. Therefore, FEE suggests that EFRAG investigates this and makes proposals to the IASB for such a solution.
- (8) FEE acknowledges the concerns raised by the IASB related to the possibility of two standards being applied to the same nature of items within the same reporting entity. However, we note that:
 - a) it would not be the first time this occurs in IASB's history, and that the IASB proposal regarding the overlay approach will have the same result; and
 - b) this is a question of trade-off between favouring somewhat enhanced (albeit not perfect) comparability of financial performance across industries and/or over time (i.e. avoid two successive disruptions in financial performance due to the introduction of two major new standards in a short period of time) versus comparability between entities with respect to financial instruments held by such companies. Whilst, as auditors, we could live with a deferral for a limited period of time in order to resolve the issue pragmatically, we trust EFRAG to further investigate with users to find out what they find most useful in understanding the financial statements of insurers and banking conglomerates.
- (9) In the case that the IASB were to confirm that a deferral approach cannot be applied below the reporting entity level, FEE would suggest to widen the scope of the solution by reconsidering the predominance test for insurance activities, and either reviewing the quantitative threshold or the required components of that threshold. Based on limited empirical evidence, we are aware that, at present, some European insurers of significant size might fail the IASB's test.

B. Overlay approach

- (10) FEE is not in a position to express any views on potential costs to preparers in implementing the overlay approach. From an auditor's point of view, we confirm EFRAG's first analysis that the solution would require the implementation of new data-processing systems and setting up new internal controls, in order to generate sufficiently reliable numbers.

- (11) Even though the technical details of the overlay approach are not well explained at the current stage, as the IASB's expected Exposure Draft is being developed, we want to emphasize some of the complexities of this approach. These complexities, as well as the flexibility in selecting the scope of application of the approach, will also have to be taken into account when auditing it. It would require forming an opinion on the appropriate scope of the different financial instruments (or portfolios of these instruments) selected by the entity, how these instruments link to insurance activities, verifying complex calculations not only related to the application of IFRS 9 and IAS 39, but also related to other items in the financial statements. For example, as part of the overlay approach, the impact on policyholders' participations included in insurance liabilities (shadow accounting), as well as on deferred taxes resulting from all the adjustments and the various tax regimes, would need to be considered in the one-line adjustment in the profit or loss and other comprehensive income, and audited.
- (12) As a final remark on this approach, we confirm EFRAG's comment that this approach does not resolve the additional volatility that would be recognised in equity, resulting from those financial instruments that are currently measured at amortised cost and that would be measured at fair value through profit or loss under IFRS 9, with the fair value adjustment recognised in equity with the overlay approach.

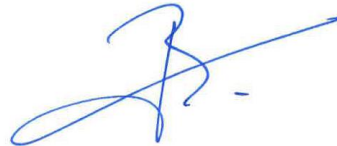
We hope that our comments are useful in finalising your letter to the European Commission on this matter.

For further information on this letter, please contact Pantelis Pavlou, Manager from the FEE Team on +32 2 893 33 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,



Petr Kriz
President



Olivier Boutellis-Taft
Chief Executive