

Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

EFRAG
35 Square de Meeûs
B-1000 Brussels
BELGIUM

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Re: Further information related to the endorsement of IFRS 9

Dear Roger,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalization of the EFRAG letter to the European Commission on further information related to the endorsement of IFRS 9 *Financial Instruments* (IFRS 9).

We agree with the general statement that, in the current situation in which the IASB has not yet published and exposed to public consultation its proposal to remedy to the non-alignment of the effective dates of IFRS 9 and the future insurance contracts standard, EFRAG is still in a preliminary assessment of the problems and, therefore, it is impossible to amend the September endorsement advice on IFRS 9.

However, it seems that the letter, in some parts, contradicts such a statement. More precisely, we refer to the following sentence: "*Whilst EFRAG is pleased to see the IASB making proposals that aim at providing the remedy it has identified as needed, EFRAG assesses, on a very preliminary basis, that the IFRS 4 amendments, if finalised on the basis of current IASB tentative decisions, would not allow EFRAG to lift the reservations included in its endorsement advice of IFRS 9*". In fact, this sentence implies a rejection of the IASB proposals, even if the EFRAG assessment is still in a preliminary stage. For this reason, we suggest to adjust the sentence.

With reference to the preliminary analysis on the deferral approach and predominance criterion, we have the following considerations.

The predominance criterion, as proposed by the IASB, is simple to apply because it requires to initially assess whether insurance activities are predominant for the entity based on the level of gross liabilities arising from contracts within the scope of IFRS 4 *Insurance Contracts* (IFRS 4) relative to the entity's total liabilities at the date when the entity would otherwise be required to initially apply IFRS 9. However, this criterion may be subject to some distortions because there are

some liabilities, other than those arising directly from contracts within the scope of IFRS 4, that, in our preliminary view, should be considered in the assessment of the predominance criterion, because they are closely related to the insurance activity. For example:

- payable arising out of direct insurance and reinsurance operations because those items are part of the typical insurance activity;
- payable due to tax authorities for taxes related to insurance contracts; and
- derivatives classified in financial liabilities related to insurance activity.

In addition, we note that the predominance criterion may exclude insurance groups from the deferral approach because, for example, they could not meet the predominance criterion just due to the inclusion of some liabilities in the denominator of the ratio, such as:

- subordinated debts, that are considered equity for regulatory purposes; and
- provisions for risk because they cannot purely be identified as insurance or non-insurance elements.

This should be further investigated because it could generate unintended consequences.

Besides, in order to identify the elements of the quantitative ratio proposed by the IASB, it could be useful to refer not only to an exhaustive and definitive list of liabilities but also to the elements that, in the segment reporting (IFRS 8 *Operating Segments*), are related to the insurance activity.

Consequently, we believe it would be worthy of attention the search for a more holistic approach that considers not only a quantitative test in assessing whether insurance activities are predominant for an entity.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò

(Chairman)