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

16 February 2016

Re: IASB ED/2015/11 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance contracts*

Dear Sir/Madam,

We are pleased to have the opportunity to provide our comments on IASB Exposure Draft *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts* (the ED).

We appreciate the IASB's efforts to develop a proposal to revise and amend IFRS 4 *Insurance Contracts* (IFRS 4) in order to address the concerns related to the misalignments of the effective dates of IFRS 9 *Financial Instruments* (IFRS 9) and the new insurance contracts Standard.

However, we have some general concerns on the proposals, as explained better in the Appendix:

- the assessment of predominant activity for the purposes of deferral approach; notably with reference to the composition of the proposed ratio;
- the exclusion of the first-time adopters (FTA) from the application of the proposed approaches.

Our detailed responses to the ED questions are in the Appendix.

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

Yours sincerely,

Angelo Casò

(Chairman)

Question 1– Addressing the concerns raised

Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard:
(a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16).
(b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraphs BC17–BC18).
(c) Two sets of major accounting changes in a short period of time could result in significant costs and effort for both preparers and users of financial statements (BC19–BC21).
The proposals made by the IASB are designed to address these concerns.

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

The concerns related to the misalignment of the effective dates of IFRS 9 and the new insurance contracts Standard could be summarized in a problem of representation of the insurance business model.

Indeed, under the current IFRS 4, many entities measure insurance contracts at cost and, under IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39), most of the financial assets underlying insurance liabilities at cost or at fair value using the available-for-sale category. Instead, with the application of IFRS 9, some of those financial assets, notably structured debts and equity investments, may change their classification into fair value through profit or loss. This would introduce additional and temporary accounting mismatches and volatility in profit or loss, pending the application of the new insurance contracts Standard that will require a current measurement of liabilities for insurance contracts.

Besides, applying IFRS 9 prior to applying the new insurance contracts Standard would raise problems in terms of complexities and costs for the insurance sector because of two sets of major accounting changes in a short period of time.
For these reasons, OIC agrees that the IASB should seek to address the concerns identified in parr. BC10-BC21.

Question 2 – Proposing both an overlay approach and a temporary exemption from applying IFRS 9

The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4:
(a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets that:

(i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but
(ii) would not have been so measured applying IAS 39 (the 'overlay approach') (see paragraphs BC24–BC25);
(b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the 'temporary exemption from applying IFRS 9') (see paragraphs BC26–BC31).
Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not?
If you consider that only one of the proposed amendments is required, please explain which and why.

OIC believes that the overlay approach is the natural remedy to the additional accounting mismatches and temporary volatility introduced by the misalignments of the effective dates of IFRS 9 and the new insurance contracts Standard. Indeed, under this solution, the IFRS 9 is implemented and the effect on profit or loss arising from the application of IFRS 9 to financial assets related to insurance contracts is sterilized from profit or loss and reported in other comprehensive income.

We acknowledge that there are two main disadvantages linked to this approach: the usefulness of the information provided to the market (in fact the entities whose prevailing activity is issuing contracts within the scope of IFRS 4 should reclassify the majority of their financial assets) and the operational costs due to the necessary dual information system (under IAS 39 and IFRS 9).

However, in our view, the overlay approach represents a suitable solution for both those entities that want to address the accounting mismatches without delaying the implementation of IFRS 9 and those entities that could fail the predominant test for the deferral approach.
For this reason, OIC supports both the overlay approach and the deferral approach as complementary solutions.

Question 3 – The overlay approach

Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach.
(a) Paragraphs 35B and BC35–BC40 describe the assets to which the overlay approach can be applied. 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) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income in applying the overlay approach. Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why?
(c) Do you have any further comments on the overlay approach?

OIC agrees that the assets described in the ED, and only those assets, should be eligible for the overlay approach because those are the only financial assets that could create mismatching effects in profit or loss from applying IFRS 9 prior to applying the new insurance contracts Standard.

Under the IASB's proposal, an entity that elects to apply the overlay approach will have possible ways of presenting the overlay adjustment. Although the comparability is already compromised by the existence of several options regarding the application of IFRS 9, OIC believes that unrestricted options in presentation would create additional limitations to comparability. For this reason, OIC suggests to reduce flexibility in presentation and to clarify the presentation requirements.

With reference to question 3 (c), please refer to what has already been stated in the answer to question 2.

Question 4 – The temporary exemption from applying IFRS 9

As described in paragraphs 20A and BC58–BC60 the ED proposes that only entities whose predominant activity is issuing contracts within the scope of IFRS 4 can qualify for the temporary exemption from applying IFRS 9.

(a) Do you agree that 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?

As described in paragraphs 20C and BC62–BC66, the ED proposes that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 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 (including liabilities arising from contracts within the scope of IFRS 4).

(b) Do you agree that an entity should assess its predominant activity in this way? Why or why not? If you believe predominance should be assessed differently, please describe the approach you would propose and why.

Paragraphs BC55–BC57 explain the IASB's proposal that an entity would assess the predominant activity of the reporting entity as a whole (i.e. assessment at the reporting entity level).

(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 propose instead and why?

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. The predominance criterion is based on the level of gross liabilities arising from contracts within the scope of 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 exclude some insurance entity from the deferral approach because, for example, they could not meet the predominance criterion just due to the inclusion of some liabilities. For these reasons, OIC suggests that financial liabilities that are classified as equity for regulatory reporting purposes (for example hybrid instruments and subordinated debt instruments), derivatives, other liabilities (such as provisions for employee benefits) and current and deferred tax liabilities should be excluded from the numerator and denominator of the predominance formula.

Besides, this criterion, as proposed by the IASB, 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 should be included into the predominance calculation at the numerator, because they are closely related to the insurance activity. Notably, OIC refers to liabilities arising from investment contracts.

Finally, OIC believes that the predominance test should be applied at reporting entity level because it is less costly and complex than the "below reporting entity" approach. Indeed, the "below reporting entity" approach would require the application of two different Standards (IAS 39 and IFRS 9) in the same financial statements with the consequence that similar financial assets could be classified in different ways in the same financial statements.

Although the OIC supports the "reporting entity level" approach, there could be a problem when the associate is an insurer that decides to apply the deferral approach and the investor applies IFRS 9. In this case it could be argued that the associate should prepare an IFRS 9 reporting package only to allow investor to apply the equity method. To solve this problem, OIC suggests to introduce in IAS 28 an exception similar to that in par. 36A for Investment Entities "(…) *if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries*". In other words, OIC suggests that the investor should not be required to conform the investee's accounting policy (IAS 39) to its accounting policy (IFRS 9) in applying the equity method.

Question 5 – Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?

As explained in paragraphs BC78–BC81, the ED proposes that both the overlay approach and the temporary exemption from applying IFRS 9 should be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied.
(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?

OIC agrees with the proposals of the IASB.

Question 6 – Expiry date

Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021.
Do you agree that the temporary exemption from applying IFRS 9 should have an expiry date? Why or why not?
Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expiry date would you propose and why?

OIC agrees that the temporary exemption from applying IFRS 9 should have an expiry date, notably beginning on or after 1 January 2021. Obviously, such an effective date implies that the new insurance contracts Standard will be finalized, as OIC expects, by the end of 2017 at the latest.

Other issues

Although the IASB does not pose a specific question on this matter, the OIC considered that the proposed amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1), that would prohibit first-time adopters (FTA) of IFRS from applying the deferral and the overlay approaches, should be amended to permit entities, that already prepare a group reporting package in accordance with IFRS, to apply both approaches.

This proposal is based, first of all, on the consideration that the IASB's proposed amendment to IFRS 1 would be inconsistent with paragraphs D16 and D17 of IFRS 1 stating that:

D16 "*If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either: (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary (this election is not available to a subsidiary of an investment entity, as defined in IFRS 10, that is required to be measured at fair value through profit or loss)*; (…)"

D17 "(…)*Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments."*

In addition, OIC believes that it is necessary to distinguish between a FTA who has never applied IFRS and a FTA who already provides IFRS information as part of a consolidation package. Whilst in the first case the costs of applying IFRS 9 may be almost the same of applying IAS 39, in the second applying IFRS 9 would mean a significant investment for entities that already have IAS 39 systems in place.

For these reasons, OIC suggests an amendment to IFRS 1 in order to permit entities that already prepare a group reporting package in accordance with IFRS to apply the same options that are permitted to the parent (ie the deferral and the overlay approach).