

To: Mr Jean-Paul Gauzès  
European Financial Reporting Advisory Group  
President of the EFRAG Board  
35 Square de Meeûs  
B-1000 Brussels

Our reference: ECO-FRG-18-076

Subject: EFRAG Discussion Paper "Equity Instruments - Impairment and Recycling" (March 2018)

Brussels, 24 May 2018

Dear Mr. Gauzès,

Insurance Europe welcomes the opportunity to comment on the EFRAG's Discussion Paper "Equity Instruments – Impairment and Recycling". We highly appreciate and support the considerable efforts of EFRAG to respond to the Commission's request for technical advice on the accounting treatment of equity instruments under IFRS 9 Financial Instruments from a long-term investment perspective.

**Insurance Europe continues to strongly support the reintroduction of recycling for equities measured at fair value through other comprehensive income (FVOCI) as it is the only way to ensure the profit and loss correctly reflects financial performance for all long-term investors.** It is also important that equity-like instruments, such as undertakings for collective investments in transferable securities (UCITS), be eligible for recycling. Allowing recycling would remove the existing accounting disadvantage for long-term equity investments under IFRS 9 and respond to the concerns already identified in EFRAG's final endorsement advice on IFRS 9 of 15 September 2015 also expressed in the European Parliament's resolution of 6 October 2016 on IFRS 9 regarding direct and indirect equity investments undertaken by long-term investors like insurance companies.

Indeed, the prohibition of recycling means that gains or losses on disposal from the sale of equity instruments measured at FVOCI are not reported in profit and loss. This is in contrast to the treatment in IAS 39 and creates the false impression that the cumulative gains and losses at the time of disposal of equity instruments are not relevant or economically significant, and therefore not a part of the financial performance. In fact, yields from capital gains have been larger historically than dividends and are therefore more relevant. They are also a fundamental reason for investing in equities and such long-term investments are a key element of the insurance business model.

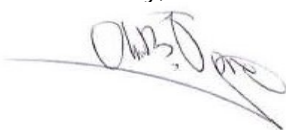
The problem can be exacerbated for insurers because equity instruments can be backing insurance liabilities (accounted for in future in accordance with IFRS 17 Insurance Contracts). Increases in the insurance liabilities will in some cases need to go through profit or loss and are economically matched by the combination of dividends and capital gains. Recycling is thus necessary to avoid creating an additional accounting mismatch.

**Insurance Europe supports the introduction of an accompanying impairment model similar to that of IAS 39, with rebuttable quantitative triggers set by the company.** However, reversals of impairments need to be allowed and IFRS 9 could address some of the drawbacks of the original IAS 39 impairment model by providing additional guidance and objectivity on the concepts of "significant" and "prolonged".

**The necessary fix to IFRS 9 should be implemented before insurers are required to apply both IFRS 17 and IFRS 9 as of 1 January 2021. We call for a targeted narrow-scoped amendment at IASB level, without waiting for the outcome of a potential future IFRS 9 PIR review.**

You will find our detailed responses to the specific questions in the Discussion Paper in our separate submission to the EFRAG staff. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,



Olav Jones  
Deputy Director General & Director ECOFIN