THE CHAIRPERSON

EUROPEAN BANKING AUTHORITY

Floor 46, One Canada Square,
London E14 5AA UNITED KINGDOM
t: +44(0) 20 7382 1776
f: +44(0) 20 7382 1771
info@eba.europa.eu
www.eba.europa.eu

Hans Hoogervorst
Chairman
International Accounting Standard Board
30 Cannon Street
London, EC4M 6XH

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Exposure Draft: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4)

Dear Mr Hoogervorst

The European Banking Authority (EBA) welcomes the opportunity to comment on the IASB's Exposure Draft ED/2015/11: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Proposed amendments to IFRS 4) (ED). The EBA has a strong interest in promoting sound and high quality accounting and disclosure standards for the banking and financial industry, as well as transparent and comparable financial statements that would strengthen market discipline.

The EBA takes note of the IASB's efforts to address the issue of different application dates of IFRS 9 *Financial instruments* ('IFRS 9') and IFRS 4 *Insurance Contracts* ('IFRS 4') and the resulting accounting mismatches.

The EBA believes that addressing the insurance concerns should not be an impediment to the application of IFRS 9 by banks and banking groups in their financial statements prepared in accordance with IFRS.

In providing our comments, we acknowledge the difficulty for the IASB of finding a solution that meets the needs of stakeholders and that will be applied for a limited time only. In this regard, we can understand the reasons for the IASB to provide the possibility to apply an overlay approach or a temporary exemption from applying IFRS 9 at the reporting entity level when a predominance test is met. We also support the rationale of the IASB regarding the design of the predominance test as explained in paragraph 65 of the Basis for Conclusions of the ED.

In addition, we don't support the alternative proposal to apply the temporary exemption below the reporting entity level as this would allow the use of two sets of accounting policies in the consolidated financial statements (IAS 39 and IFRS 9) of banking groups, which would make the financial statements more complex to understand and less transparent and comparable.

Finally, from a banking perspective, we agree with the inclusion of a sunset clause to the temporary exemption to limit the time that financial statements may be prepared on an IAS 39 basis.

We are providing our comments from a banking perspective and therefore only commenting on some particular aspects of the ED.

We have not explicitly addressed the specific questions raised in the ED. Our comments on the ED are set out in the Annex.

If you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely

(signed)

Andrea Enria

Encl: Annex

Annex

The EBA takes note of the IASB's efforts to address the issue of different implementation dates of IFRS 9 and IFRS 4 and the resulting accounting mismatches. Although we understand the conceptual basis for proposing the options of the ED, we would also suggest that the IASB considers in more detail these proposals to ensure that the desired objectives are met.

Overlay approach

We understand the objective in the ED to provide a response to the accounting mismatches that may arise due to the different application dates of IFRS 9 and IFRS 4. Bank conglomerates that include an insurance entity will be able, in their consolidated financial statements, to remove from profit or loss the incremental volatility in profit or loss caused by changes in the measurement of insurance contract-related financial assets upon application of IFRS 9. Instead, the volatility would be recognised in other comprehensive income provided that the entity issues contracts accounted for under IFRS 4.

The ED proposes different options to present the adjustments that result from the application of overlay approach. However, we would prefer one presentation approach instead of leaving several possibilities to entities (see paragraph 35C), as this would enhance comparability among bank conglomerates (with insurance activities) that apply the overlay approach.

In addition, as acknowledged by the IASB in BC39, different entities could use different approaches to designating financial assets as relating to contracts that are within the scope of IFRS 4. In this regard, it would be useful if the IASB further clarifies the definition of assets relating to insurance contracts in order to promote consistency of application.

Temporary exemption from applying IFRS 9

The ED proposes to restrict the application of the temporary exemption to those entities which are predominant insurers

The ED proposes to apply the temporary exemption at the reporting entity level. This would mean that, although the individual financial statements of non-insurers (for example banks) must be prepared according to IFRS 9[1], depending on how the predominance test is defined, at consolidated level some bank assets and liabilities may be included according to IAS 39. It should

[1] We also acknowledge that in some cases bank's financial statements may be prepared in accordance with national accounting standards.

though be considered that this is likely to bring additional reporting burden for those banking entities.

The EBA doesn’t support the application of the temporary exemption from IFRS 9 below the reporting entity level, because it would allow the use of two sets of accounting policies in consolidated financial statements, which would make the financial statements more complex to understand, less transparent and comparable. We are also concerned about the possibility of earnings management. We would prefer to avoid mixed accounting requirements (IAS 39 and IFRS 9) on any balance sheet of financial statements of banks, whether these financial statements are individual or consolidated ones.

Lastly, we support the rationale of the IASB regarding the design of the predominance test as explained in paragraph 65 of the Basis for Conclusions of the ED