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04 March 2016

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

RE: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, Proposed amendments to IFRS 4

Our Ref: 2016/JE/C1/IASB/49

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, Proposed amendments to IFRS 4 (the Exposure Draft or ED).*

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

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Proposal Objective

C1 members appreciate the IASB's proposal and that insurers would be facing the task of communicating with investors based upon reported accounting results that may seem incomplete. As a practical matter we also note the prospect of insurers implementing two sets of major accounting changes within a short period of time. Members believe the financial statement effects of IFRS 9 *Financial Instruments* are important and relevant to investors, however, acknowledge that users may find it difficult to understand the accounting result that could stem from insurers adopting IFRS 9 in advance of the new insurance contracts standard. Therefore, in this extenuating circumstance, most members think that the proposal is a reasoned response. However, one member does not support the proposal because this member believes that the interplay resulting from applying IFRS 9 and IFRS 4 could be addressed by utilizing existing accounting requirements as discussed in BC 14 of the Exposure Draft. Furthermore, this member believes the Exposure Draft will result in lack of comparability among issuers, reducing the utility of financial statements for users and increase the risk of earnings management via the choice. This member would accept a proposal in which the deferral approach was mandatory for all entities whose predominant activity is issuing insurance contracts.

Understandability and Enforceability

Despite appreciating the purpose of the Board's proposal, members have concerns related to the understandability and enforceability of the proposed scope of the Temporary Exemption from applying IFRS 9 and the Overlay approach.

Deferral Approach

The scope of the deferral approach is based on the entity's predominant activity reflected in a defined quantitative threshold. This should be useful in identifying the entities most affected by the interplay between IFRS 9 and their current insurance contract accounting. C1 members believe that the scope criteria should therefore be clear and unambiguous so that such assessment can be reasonably enforced. Members agree with the proposal that an entity should assess its predominant activity at the reporting entity level and not below the reporting entity level. This will help to ensure that the scope is limited to the intended entities and also will avoid the simultaneous application of both IFRS 9 and IAS 39 by the reporting entity.

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We agree that predominance of activity in issuing insurance contracts should be assessed on the basis of liabilities in the scope of IFRS 4. This is imperative so that only entities that have significant insurance liabilities are able to utilize the temporary exemption. However, in order to ensure that the predominance test captures the relevant activities related to insurance contracts within the scope of IFRS 4, members believe further guidance is necessary to determine which liabilities should be included in the total liabilities.

For example, should the total liabilities be adjusted for: bonuses and rebates in the life insurance industry that are outside of the scope of IFRS 4, derivatives held as hedging instruments in qualifying hedging relationships related to insurance liabilities in the scope of IFRS 4, recognized deferred tax liabilities stemming from taxable temporary differences related to insurance contracts in the scope of IFRS 4, written put options over non-controlling interest for consolidated insurance funds that are classified as a liability, and investment contracts that are measured at fair value through profit or loss (such as unit-linked investment contracts)? The treatment of these, and other, liabilities in assessing predominance could impact which entities satisfy the scope for deferral of IFRS 9 and members agree that the scope of entities that can do so should be limited to capture only the relevant entities.

Overlay Approach

As it relates to the Overlay Approach, C1 members are concerned that the current description is not sufficiently clear and may lead to inconsistency of application. We encourage the IASB to clarify the definition of financial assets that are "related to contracts that are within the scope of IFRS 4." It should be clear from the guidance provided how to determine this relationship exists without undue burden on preparers, while also not being so flexible to present issues with enforceability. Members recommend providing examples of how one would determine the financial assets that are in and out of scope of the overlay approach. While BC 39 acknowledges the IASB's view that different entities could use different approaches to designate financial assets related to contracts within the scope of IFRS 4, C1members believe that such relationship should be based on an objectively verifiable economic relationship. This will promote the understandability and enforceability of the scope of financial assets that are eligible to utilize the overlay approach.

Members also believe the IASB should consider expanding the required disclosures when the overlay approach is applied so that management's rationale for which relationships are eligible for the overlay can be understood by financial statement users.

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Sunset Provision

C1 feels strongly that the sunset clause is critical because it reinforces the temporary nature of the proposed amendment and it ensures that without future Board deliberation and action the temporary approaches would not stay in use unabated. We think it is in the best interest of investors that the impact of IFRS 9 be fully reflected in the financial statements of all entities prepared using IFRS as soon as is practical. Furthermore, IFRS 4 should be completed as soon as possible.

Possible Alternative Approaches

Some market participants and other organisations have suggested alternative approaches for the scope of the temporary exemption, such as the insurance regulation (i.e., the deferral would be allowed for entities within a group which are regulated by an insurance regulator). These alternative approaches have different pros and cons that were not fully explored by the IASB in the ED, which makes it difficult to assess their relevance. Members believe the IASB should weigh the pros and cons of these alternative approaches and include in the proposal the result of these considerations.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

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