

EPFSF Breakfast Discussion
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“IAS 39 review”

Speech from Gerard van Olphen
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- **Initiative to replace IAS 39 is welcomed**

IAS39 is a standard that applies to all companies that hold or issue financial instruments. Financial instruments compose the vast majority of the assets of insurance companies. Financial liabilities are also a significant part of insurers' liabilities. The requirements in IAS 39 are difficult to understand, apply and interpret. We therefore welcome the initiative of the IASB to develop a standard dealing with the accounting of financial instruments.

- **IFRS 9 should be developed considering the insurance specificities**

While a lot of pressure has been put on the IASB to improve IAS39 in light of the difficulties experienced by banks and other companies, it is of utmost importance that the future rules are also developed considering the insurance specificities. In particular, it is fundamental that the future standard allows proper recognition of the specific business model of insurers, which is very different from the one of banks. Current proposals for the impairment of certain categories for financial instruments seem not to be appropriate for an investment portfolio of insurance companies typically containing listed instruments.

- **Consistency between future standard insurance contracts (IFRS 4 II) and IFRS 9 is of key importance**

European insurers also face the overhaul of the accounting standard ruling the valuation of insurance liabilities (IFRS 4 Phase II). This means that in the coming 3 years, insurers will face a major change in the valuation of the main part of their assets and of their liabilities. Therefore, the model proposed for valuing financial assets (IAS39 / IFRS9) and the insurance liabilities (IFRS4) must be 'compatible' and must allow proper recognition of insurers' business model, which is based on asset-liability-management. In addition, it is important that the timetables for the implementation of those two standards are aligned, in particular the mandatory application date for both projects should be the same.

- **Piecemeal approach IFRS 9 prevents having an opinion about proposals**

The IASB has undertaken a 3 phase approach to revise IAS39 (classification and measurement, impairment and hedge accounting). They have now added a 4th phase as financial liabilities have been scoped out of the first phase. This piecemeal approach prevents preparers to have the full picture of the new model proposed by the IASB. This is reinforced by the fact that all phases are interrelated (for example, the first phase rules what must be classified at amortised cost but it is only the second phase that tells you what amortised cost means).

- **In case of early adopting IFRS 9, insurers should be able to revisit their classification of investments on first time adoption of IFRS 4II**

Once IFRS9 gets endorsed, some European insurers may decide to early adopt it (on the basis that putting assets at cost will provide better information than the current IAS39 (fair value) for their specific business because under IFRS 4 Phase 1 insurance liabilities are mostly accounted for at cost. The IASB must allow insurers to revisit the classification of their financial instruments at first time application of the future insurance contract standard (depending on the model elected by the IASB for valuing insurance liabilities in the insurance contract standard).

- **Convergence of US GAAP and IFRS is desirable**

The U.S. Financial Accounting Standards Board (FASB) is currently changing its accounting on financial instruments. Current tentative decisions are not consistent with the new standard issued by the IASB. It is not clear if full convergence between the FASB and IASB will be achieved which could lead to the competitiveness of the European insurance industry being damaged.

- **No position of CEA regarding endorsement of IFRS 9 within EU**

On the issue of endorsement of IFRS9 by the European Commission, the CEA did not reach a position. CEA members were equally split between those fully supporting the endorsement even if, for some companies, IFRS9 was not perfect (it was seen as a major improvement), and those who opposed it, either because of the piecemeal approach explained above or for technical reasons (mainly related to the fact that all shares must be fair valued, regardless of the business model).

So, to summarize our contribution in this session:

- **We very welcome the replacement of the complex standard IAS 39.**
- **The specific character of Insurance activities should be considered.**
- **Consistency between the new standard for investments and the new standard for insurance contracts is of key importance.**
- **Insurers should be able to revisit the classifications when new standard for insurance contract is applicable.**

Thank you for your attention!