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Paris, the 2th July 2015

Mr Roger MARSHALL
Acting Chairman - EFRAG Board
35 Square de Meeûs
B-1 000 Bruxelles

Le Président

N° :

Re: EFRAG's draft endorsement advice on IFRS 9 *Financial Instruments*

Dear Mr Marshall,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned draft endorsement advice (DEA) and on EFRAG's assessment of IFRS 9 against the technical criteria included in the letter of the European Commission dated 8th December 2014. These comments result from the ANC's due process, involving all interested stakeholders.

IFRS 9 has been issued after a long process, which has led to deep debates and several successive public consultations that have required considerable efforts and a great involvement of all stakeholders. We understand that the IASB had to manage a critical balance between different constraints, such as for instance avoiding too much complexity for preparers and preserving the true and fair view principle. As a consequence, the final standard issued by the IASB is not completely exempt from any compromise and all the issues have not been addressed appropriately.

The ANC considers therefore that these issues should be brought to the attention of the European Commission, even if the endorsement advice expressed by EFRAG remains positive overall (subject to appropriate deferral for insurance activities. See below). Regarding these issues, the advice should integrate messages to the European Commission related to potential effects of the new accounting standard. According to us, the main messages can be summarized as follows:

1. The European Commission should ask the IASB to differ the application of IFRS 9 by insurance entities

The ANC fully supports the EFRAG's proposal to advise the European Commission to ask the IASB to allow insurers to defer the effective mandatory date of IFRS 9 and to align it with the effective date of the future IFRS 4 Phase II. Should IASB decline this query, the European endorsement should then authorize this deferral.

Indeed, granting insurance entities the option to defer the application of IFRS 9 until the effective date of the future insurance contracts standard would be the most suitable solution to ensure a consistent accounting treatment between financial assets and insurance contracts in the financial statements of these entities as the interaction between assets and liabilities is key to reflect their business model and their performance.

This option of deferral should be granted to all insurance entities, including those consolidated within a conglomerate since adequate segment information will then be disclosed that will help users to understand the classification and measurement of financial assets within the respective underlying insurance and non-insurance subsidiaries. (See § 9(a), 9(b), 9(c) for more details)

2. The ANC recommends EFRAG to put more emphasis on some issues that still raise concerns regarding the European public good and the financial stability:

- ANC believes that the endorsement advice should highlight the practical difficulties of the use of fair value for certain financial instruments and under certain circumstances. A proposal of additional comments (§50 to 52) is made in "Appendix 2 – ANC". As a consequence, the prohibition of reclassifying financial assets outside the fair value through P&L or OCI categories when markets become inactive remains a strong concern for the European public good. In 2008, the disappearance of active markets was considered by the European Commission and the TEG of EFRAG as a legitimate cause for reclassifying financial assets. The IASB then issued an amendment to IAS 39 that was approved by EFRAG and endorsed by the European Union. As IFRS 9 was aimed to bring answers to the issues raised during the 2007/2008 crisis, we do not share EFRAG's view that its provisions should be tailored for normal time only, ignoring what was improved in November 2008 to face exceptional situations that were not addressed appropriately through IAS 39.

- The ANC understands that prudential supervisors are currently analyzing the new impairment model provided by IFRS 9 in order to determine its consequences on the banks' regulatory capital requirements. The uncertainty about the timing of the update of prudential rules by the supervisors should also be assessed with regard to the European financial stability perspectives. (See §2 and § 5(b)). This is particularly true in a context where IFRS 9 introduces, in most cases, an element of over-impairment for financial instruments held to collect.

- The ANC is of the opinion that one of the most probable effects of the implementation of the new impairment model will be an increase of procyclicity and volatility of the net incomes of banks. The European Commission should be aware of the potential implications of this issue on the European economic growth and the financial stability. (See § 5(b)).

3. The ANC recommends EFRAG to adjust its assessment of IFRS 9 in the light of the concept of prudence on the basis of the European framework

In its letter dated 8th December 2014, the European Commission specifically raised the concept of prudence as a matter for consideration. For the purpose of its DEA, EFRAG defines prudence as caution in condition of uncertainty, as it is mentioned in the current Exposure Draft of the IASB ED/2015/3 on the Conceptual Framework for Financial Reporting.

For the purpose of the European endorsement process, the ANC considers it would be more appropriate to assess the concept of prudence in the light of the European approach as defined in the Bulletin of April 2013 "Getting a better framework" jointly issued by EFRAG and several national standards-setters. Furthermore, the ANC considers that this assessment should not be restricted to

risks of underestimation of assets and should not lead to promote the fair value measurement. Risks of overestimation of assets should also be assessed, especially when failing the SPPI test leads to an increasing use of level 3 valuation models. (See § 3(a)).

4. The ANC does not share EFRAG's proposed conclusion regarding the consequences of the lack of quantitative assessment of IFRS 9 prior to its endorsement

The ANC, in its letter to EFRAG dated 31 August 2011, expressed the need for an ex-ante evaluation of any accounting standard based on simulations of its expected effects prior to its adoption. The ANC recognizes the efforts made by EFRAG in order to obtain quantitative assessments of IFRS 9. However, since limited inputs were collected, EFRAG reached its preliminary conclusions relying on a limited quantitative assessment, in particular on the impacts of the new impairment model.

As the implementation of this new impairment model for credit risk will represent one of the most volatile and sensitive consequences of IFRS 9 for the banking industry, we consider that assessing the consequences of such a new standard on the basis of so limited quantitative information would create an unfortunate precedent. In addition, the importance of quantitative assessment has been demonstrated by the discussions held by EFRAG with the insurance industry.

Therefore, the ANC is of the view that EFRAG should ask the European Commission to appoint an agency (EBA) or ECB which could request financial institutions to provide their quantitative assessments. EFRAG should also explicitly highlight in its DEA that European institutions (including the Commission) need to establish a suitable organization for bringing modifications that may become necessary if impacts (in 2017) appear to be detrimental to the European public good. (See §16 for more details).

5. The ANC identifies remaining technical issues that should lead to a Post Implementation Review:

The ANC agrees with EFRAG that the option to recognize fair value changes in OCI is not an appropriate solution for long-term investors. The prohibition of recycling gains or losses from OCI into P&L when the equity instruments (not held for trading) are sold or impaired does not provide a true and fair view of the performance of the underlying business model. This non-recycling constraint may then have detrimental effects on long-term investments activities. Furthermore, the ANC does not share EFRAG's view that it is unlikely that equity investors would change their investment strategy as a result of the implementation of IFRS 9.

We fear that both the requirement by default to measure all equity investments at fair value through P&L and the unattractive alternative to measure them at fair value through OCI without further recycling of gains or losses into P&L will not help developing financing activities through capital market as they are currently promoted by the European authorities. (See § 2 and § 7).

Therefore, we encourage EFRAG to ask IASB to review the IFRS 9 accounting treatment for equity financial assets as soon as possible, even if it leads to reopen the related impairment methodology issue.

Several other technical points that are mentioned in "Appendix 1 – ANC" hereafter will also have to be assessed through a post implementation review (PIR) of IFRS 9. EFRAG could already ask the IASB to put these points on the agenda of its future PIR. In case the IASB would not include these issues in its PIR, EFRAG should then consider conducting its own PIR in the light of the European endorsement criteria.

Despite these comments, the ANC acknowledges that IFRS 9 has achieved improvements compared to the current IAS 39. Among these improvements, we can mention the following:

- The new hedge accounting allows for a better alignment of financial statements with risk management practices. We also agree with EFRAG's conclusions that the EU carve-out remains applicable for macro-hedging until the macro hedging project launched by the IASB will be completed, provided that the paragraphs of IAS 39 that deal with hedge accounting and those that were carved-out remain unchanged.

- The business model remains a mandatory criterion to be used for the classification and measurement of financial assets even if we regret that the SPPI test prevails over the business model test.

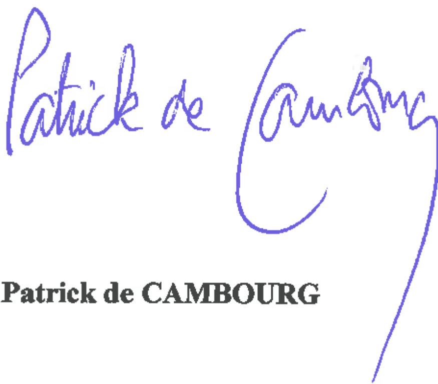
- The recognition into OCI of changes in own credit risk on financial liabilities designated at fair value through P&L (fair value option) is also welcome as it will improve the understandability of the net income.

The ANC considers that the possibility for insurance entities to defer the application of IFRS 9 until the effective date of the future insurance contract standard is the most critical issue. Should this issue not being solved by the IASB, ANC would not support the endorsement advice of IFRS 9 as it is. This insurance issue being set apart, if the issues mentioned above are brought to the attention of the European Commission in order for it to be fully aware of the remaining topics that can lead to unforeseen or unanticipated detrimental consequences, the ANC would not be opposed to the endorsement advice of IFRS 9, taking into consideration the improvements that are also brought by the new standard.

We have provided our detailed comments in our answers to the EFRAG's questionnaire.

We hope you will find these comments useful and would be pleased to provide any further information you may require.

Yours sincerely,



Patrick de CAMBOURG

Appendix 1-ANC

Overview technical issues and comments to provide to EC

Technical issues		
Order	**Interrelation with the future insurance contracts standard**	**See §**
1	First time adoption: specific issue for insurance entities (including those consolidated into conglomerates) regarding the respective effective date of IFRS 9 and 4 phase 2 that should be aligned, leading to an optional deferral of IFRS 9 by these entities.	§2- 1 / §9
	Amendment of IFRS 9 to be proposed	
2	Equity financial assets measured at FV through OCI: reviewing the prohibition of recycling unrealised profit or loss when the asset is derecognised or impaired.	§2- 2 / §7
	To integrate in the PIR (Post Implementation review)	
3	Modified financial assets: clarifying the distinction between a renegotiation for commercial purpose (leading to derecognition of the initial loan) and a restructuration for credit risk purpose.	§2- 8
4	Financial assets purchased through a business combination: an amendment to IFRS 3 could make sense in order to have the 12 months EL impairment allowances recognized as an identifiable item when measuring the net of the acquisition-date amounts of identifiable assets acquired and liabilities assumed under a business combination.The allocation of the pre-existing allowances in the financial statement of the purchased assets, as the initial EL allowance of these assets in the business combination, is a solution.	§2 - 7- d.
5	Investments in funds : they will be inevitably classified in Fair Value through P&L.	§2 – 3
6	Hedge accounting: the Sub-Libor issue remains unsolved for micro hedging.	§2- 9
7	Impairment for credit risk: consequences of the new forward looking approach will have to be assessed	§2-7-b.

order	**DEA Issues – messages from EFRAG to EC**	**See §**
1	Practical difficulties related the use of fair value Reclassification of financial assets: issue related to the prohibition of reclassifying financial assets when their markets become inactive, contrary to what had been considered as relevant in 2008.	§5 a.
2	Quantitative assessment: given the lack of a comprehensive quantitative assessment of IFRS 9, should European institutions anticipate a pro-active initiative if negative impacts on European public good are observed after the first application of IFRS 9 ?	§16
3	Financial stability: messages to be brought to the EC about potential impact on financial stability concerning, for the banking industry: • The uncertainty about the timing of the update of prudential rules by the banking	§2–5 /§5 b) – 1

	supervisors and then the potential disconnection from IFRS 9 effective date • The procyclicity of net income due to the application of the new EL model	§5 b) – 2
4	Prudence: review the arguments about the concept of prudence that suffered from significant shortfalls and do refer to the European framework.	§2 – 6 / §3
5	Overall assessment with respect to the European public good: review the affirmation that adoption of IFRS 9 "lowers the cost of capital" to take into consideration expected impacts on regulatory capital requirements for banks and other similar regulated entities.	§14
6	Amend the wording "foreseeable future" that creates confusion with US GAAP	§ 6
7	A proposition to improve argumentation on the Fair Value Issue	Appendix 2-ANC

Appendix 2-ANC

A proposition to improve argumentation on the Fair Value Issue
(see in red hereafter)

Use of fair value – extract from DEA in the Appendix 2

A3. USE OF FAIR VALUE

44 The following assets and liabilities are measured at fair value under IFRS 9:

(a) Financial assets that do not meet the contractual cash flow characteristics test including:

(i) all equity instruments;

(ii) all derivatives; and

(iii) debt instruments not meeting the test.

(b) Investments in debt instruments (financial assets) that meet the contractual cash flows characteristics test but are held within the business models where selling the assets is an integral part of achieving the business model objective;

(c) Financial liabilities held for trading;

(d) Financial assets and financial liabilities designated at fair value through profit or loss under certain circumstances (fair value option); and

(e) Hedged item designated in fair value hedges (if the hedged item is designated in respect of risk components, only the revaluation resulting from those risk components is recognised).

45 In terms of principles, EFRAG assesses that measuring financial assets that do not meet the contractual cash flow characteristics test at fair value leads to relevant information for the following reasons:

(a) equity investments and derivatives have no contractual cash flows which can be used as a basis for amortisation;

(b) amortised cost provides little information with predictive value about timing, amount and uncertainty of cash flows relating to these instruments; and

(c) for debt instruments not passing the cash flow characteristics test EFRAG assesses that fair value is the best predictor of future net cash inflows for these assets as explained in paragraphs15.

46 As explained in paragraphs 27-30 fair value is one of the measurement methods leading to relevant information for investments in debt instruments held in a business model to collect and/or sell. However, combining fair value and amortised cost in this business model may lead to difficulties to reflect performance in an appropriate manner.

47 Generally, EFRAG assesses that amortised cost provides the most relevant information for measuring many financial liabilities as it reflects the issuer's legal obligation to pay the contractual amounts. However, when financial liabilities are held for trading, the entity's short term objective is not to repay the contractual amount due but rather to achieve a trading result from repurchasing it. In such cases EFRAG assesses that fair value provides relevant information.

48 When an entity elects to measure a financial asset or a financial liability at fair value through profit or loss, EFRAG assesses that fair value leads to relevant information. This because the option is available if it eliminates or significantly reduces an accounting mismatch, as assessed in paragraph 34, or in addition, for financial liabilities, performance of these is evaluated on a fair value basis or when embedded derivatives cannot be measured separately. The fact that IFRS 9 requires that the changes in fair value due to changes in the entity's own credit risk are presented in other comprehensive income as discussed in paragraph 39 to 43 further contributes to the relevance of the information.

49 Finally EFRAG assesses that measuring the hedged item in a fair value hedge at fair value leads to relevant information as it ensures that offsetting changes in the value of the hedging instrument and the hedged item are recognised in profit or loss.

50 Beyond relevance in terms of principles, EFRAG wishes to highlight a number of practical difficulties and consequences that are mentioned by a number of its constituents:

(a) For certain financial instruments (such as basic lending portfolios) and under certain circumstances (such as a financial or a liquidity crisis), fair value is not available via traditional market mechanisms. In these cases, there is an extensive utilisation of mark-to-model valuation techniques which imply the selection of appropriate parameters and therefore judgement.

(b) Fair value (mark-to-market or mark-to-model) puts the emphasis on the measurement of positions at reporting date and therefore on the impact of market factors upon assets and liabilities. It does not necessarily or directly reflect the performance of management, in particular in activities focusing on long-term performance and therefore requires significant additional information.

(c) Fair value reflected through profit and loss increases volatility and may be pro-cyclical since it translates the fluctuations of markets. In cases of sudden collapses or downward trends, there is a risk of amplification of the trend.

51 The above comments are not new. They are related to the more general debate on the conceptual framework. However EFRAG believes they have to be borne in mind.

52 Overall, and subject to the above comments, EFRAG assesses that in those cases where IFRS 9 relies on fair value measurement this leads to relevant information.

©Autorité des normes comptables, juillet 2015

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON

IFRS 9 *Financial Instruments*

Comments should be sent to commentletters@efrag.org by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.

Your details

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Autorité des Normes Comptables

(b) Are you a:

☐ Preparer ☐ User X Other (please specify)

French standard setter

(c) Please provide a short description of your activity:

(d) Country where you are located:

France

(e) Contact details including e-mail address:

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

(a) Do you agree with this assessment?

X Yes with significant caveats ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

ANC agrees with the positive endorsement advice proposed by EFRAG under certain key caveats.

Nonetheless, ANC wishes to underline that the final IFRS 9 has been issued after a long and quite hard process including deep debates, useful consultations and a great involvement of all stakeholders. During all this process, the IASB had to manage a quite difficult balance between different constraints such as avoiding for instance too much complexity and operational burden for preparers and preserving the respect of the true and fair view principle. In order to be able to issue the standard at the end of this process, some compromises have been made by the Board, resulting in some remaining issues in IFRS 9 the consequences of which will have to be carefully analyzed after the first implementation of the standard.

ANC agrees with EFRAG when it considers that these remaining issues are not individually outweighing the improvements that are brought by IFRS 9, and thus do not stand in the way of the endorsement. But ANC considers that EFRAG is not highlighting enough that these issues are not fully compliant with the technical criteria. The consequences of these issues will need to be followed up, at a minimum in a post-implementation review of IFRS 9, both from a technical point of view (considering the criteria of understandability, relevance, reliability, comparability and prudent accounting) and from the European public good perspective.

ANC considers as critical that the European Union does not endorse IFRS 9 without being fully aware of these remaining issues including the consequences of the standard which were not measured yet.

Compared to the current IAS 39, the final version of IFRS 9 issued in July 2014 has brought some positive improvements on the following issues :

- The new standard is more focusing on business model to provide a better accounting model that aims to be more consistent with holding strategies for classifying and measuring financial assets. The complexity of the hedge accounting model has been lowered, without ignoring the need for a specific model dedicated to macro-hedging that is subject to a separate ongoing project.
- The new impairment model is meant to be consistent with G20 orientations, as a response of the « too little too late » provisioning of IAS 39, and as providing a progressive recognition of impairment losses..
- The new hedge accounting model includes non-financial items as hedged items, and more generally allows a better alignment of financial statements with the risk management practices and hedging strategies. It is also based on a much more principle-based approach after the removal of the rule-based features that currently exist in IAS 39 (such as the 80-125% correlation test).
- The recognition into OCI of changes in own credit risk on financial liabilities designated at fair value through P&L (fair value option) will improve the understandability of the net income. Nevertheless, we underline that such improvement could have been issued much earlier without waiting to the finalization of IFRS 9; it could have been implemented through a marginal amendment of IAS 39. We think that EFRAG could point out this issue.

But, as stated above, important issues remain on a number of topics:

A) For insurance companies:

1. Disconnecting the first application of IFRS 9 from the first application of the future insurance contracts standard raises strong concerns for both preparers and users (see point 9 "inter-relationship of IFRS 9 with the future insurance contracts standard" hereafter)

B) Business model

2. For investors, including insurers, holding equity instruments outside trading activities: the prohibition to recycle profit or loss or currency effect from OCI to P&L when the equity instruments are sold or impaired does not give a true and fair view of the performance of the underlying business model. This is a main issue for long term investors, included insurance industry, private equity business, and all business models whose performance is not consistent with a fair value through P&L measurement. Should such prohibition reduce the investors' appetite for equity instruments, it could then raise concerns for entities such as financial institutions that will need to issue new equity instruments to meet the new prudential requirements that have been strengthened following the last financial crisis. Further, such prohibition leads

to confusion between P&L and OCI when assessing the performance of the entity.

The need for a new impairment model for equity investments shall not be an obstacle for reconsidering the eligibility of equity financial assets to the fair value through recyclable OCI category. (See point 7 "impact on investor and issuer behavior", hereafter). This issue should be included in priority in the post implementation review.

3. As far as the SPPI test is prevailing over the business model, some instruments currently held for other than trading activities purposes cannot be classified and measured other than at fair value through P&L. Because some puttable financial assets such as investments in funds are not SPPI but also not qualified as equity financial assets, there is no alternative category than fair value through P&L. ANC agrees with EFRAG regarding the lack of relevance of such outcome. But disconnecting the measurement basis of such assets from their holding purpose and from the related business model will not avoid complexity for both preparers that will have to explain their performance as it is presented in the P&L and users that will have to understand the different activities and business models that are underlying the P&L. EFRAG (appendix 2, paragraph 38) is assessing that "any limitation in relevance of the information is balanced by the fact that the approach is principle-based and avoids complexities that would otherwise results from overriding the definition of equity instruments". We do not see in this conclusion any argument that could explain why the potential complexity related to the distinction between debt and equity instruments is outweighing the lack of relevance of a by-default classification and measurement of such financial assets. Consequently, we cannot share EFRAG's view on this issue as we consider that reducing complexity shall not be realized to the detriment of the relevance of the resulting accounting treatment.

C) Financial stability:

4. Practical difficulties related to the use of fair value and, as a consequence, limitation on reclassification of financial assets when their markets become inactive may prohibit the ability to reclassify financial assets outside the fair value categories in circumstances where such reclassifications were considered as appropriate by the European Union in 2008 (see this item on European good assessment for more details).

D) Other issues:

5. ANC understands that prudential supervisors are currently analyzing the new impairment model provided by IFRS 9 in order to determine its consequences on the banks' regulatory capital requirements. The uncertainty about the timing of an update of prudential rules by the supervisors should also be assessed for European financial stability perspectives (see this item on European good assessment, for more details). This is particularly true in a context where IFRS 9 introduces, in most cases, an element of over-impairment for financial

instruments held to collect.

The remaining shortcomings of IFRS 9 can also lead to additional complexity for regulated entities that are expected to follow regulatory requirements and prudential ratio based on or derived from IFRS accounting figures. For banks, for instance, an additional complexity may arise from the extension of the scope of instruments measured at fair value despite their underlying business model (since the SPPI test is prevailing over the business model test): such complexity will also arise from additional prudential adjustments (such as the prudent valuation adjustments applied to adjust the IFRS fair value measurement for prudential purpose) and from the disconnection that may appear between the accounting and the prudential distinction between banking and trading books.

6. IFRS 9 increases the potential use of the fair value through P&L category which has become the by-default category. The removal of the bifurcation of derivatives embedded in structured assets, the obligation to use fair value for measuring non quoted equity instruments, and the application of the SPPI test (consequences of which are currently being assessed by preparers) may increase the volume of financial assets measured at FV through P&L. Such extension raises questions about the reliability and the complexity of the measurement of these assets that will become measured at fair value since it will increase the use of valuation models that may be entity-specific and may require the use of unobservable inputs.

   See also specific comments about the use of fair value on the paragraph "Prudence" (point 2 of the document).

7. Impairment (El model):
   a. The ANC, as expressed in its letter dated 8th July 2013, is supportive of the IASB's initiative to establish an expected losses model of impairment with IFRS 9 phase II, replacing IAS 39 incurred losses model.

      From a conceptual standpoint, the ANC is of the opinion that under the amortized cost model, matching revenues and costs is a key issue. As a consequence, for basic lending activities, the credit spread component of the contractual interest rate (risk premium) should not to be considered as an income when it is received by the lender, it should be deferred in order to cover credit losses when they occur since the pattern for the perception of the risk premium and the pattern for the effective occurrence of credit losses differ by construction. Conceptually, this risk premium model would compensate at all reporting dates the mismatch between the above two patterns.

      The ANC notes that the weakness of the conceptual basis underlying the 12-month expected credit losses model is mitigated by the following

practical considerations:

(i) The risk premium model approach has been initially explored but subsequently abandoned as it was deemed not to be operational due to a huge implementation complexity. In contrast, the 12-month expected credit loss is designed to make the requirements in IFRS 9 operational.

(ii) Even though the recognition of 12-month expected credit losses may overstate losses at initial recognition, it addresses the criticism that accounting models do not provide for timely recognition of impairment losses. From this perspective, 12-month expected credit losses can be viewed as a compromise between the non-recognition of losses at the instrument's inception, which might be conceptually sound as there is no loss at initial recognition of the asset if credit risk is correctly reflected in its interest rate, and the application of prudence to provide a timely recognition of impairment losses.

Compared to the above conceptual approach for financial instruments measured at amortized cost, the ANC assesses that IFRS 9 introduces an element of additional prudence in most cases.

b. Forward looking approach : by requiring the use of all forecast about future economic conditions when measuring the credit risk impairment (forward looking approach), IFRS 9 introduces a new concept in the calculation of impairment allowances. Without calling into question the relevance of this concept, the ANC observes that issues arising from the introduction of this forward looking approach are currently studied by preparers but also by auditors and supervisors and that to date it has not been possible to measure the consequences of this new approach. Consequently, the outcome of this innovation will need to be further assessed during a post-implementation review.

c. EFRAG has also highlighted the inconsistency between measuring expected credit losses at initial recognition for financial assets measured at amortized cost on the one hand and including directly expected credit losses in the valuation of financial assets measured at fair value (either through P&L or through OCI) on the other hand. In the first case, equity is reduced by the amount of expected credit losses. In the latter case, both expected credit losses and interest rate cash-flows to be received until maturity are offset in the fair value measurement and thus there is no additional credit adjustment needed. Without calling into question the relevance of a mix-measurement model based on the business models of the entity, we consider that this inconsistency puts formally the amortized cost category at a disadvantage compared to the other categories. Assessing the consequences of this issue should be done simultaneously with the

quantitative assessment of IFRS 9 (See question 16).

d. In case of a business combination: when SPPI financial assets to be measured at amortized cost are purchased through a business combination, they are initially recognized in the consolidated balance sheet at their fair value and then they lead to the recognition of the 12 months EL through P&L, right from the first reporting date. Should these assets be classified at fair value through P&L (in case of ability to apply the fair value option), this D1 loss would not be recognized. This may affect the understandability of the performance when the issuer has performed significant business combinations during the period as such a day-one loss could raise questions about the merits of the combination. This accounting treatment in the primary financial statements could lead to non GAAP disclosures increasing the complexity of the resulting financial statements. Overall, the outcome of such a treatment may result in a counter-intuitive effect that could hardly be justified economically.

   The relevance of this treatment could have been raised by EFRAG as well. To avoid such outcome, the 12 months EL impairment allowances existing at the date of the business combination should be then recognized as an identifiable item when allocating the purchase price . For this purpose, an amendment to IFRS 3 could make sense and should be then effective at the same date as IFRS 9.

e. See also specific comments about impairment on the paragraph "Prudence" (point 2 of the document), and the paragraph "European public good" (point 5 of the document).

8. Renegotiations: EFRAG has clearly identified the issue regarding the potential recognition of a loss when the terms of a financial asset are modified due to commercial reasons rather than credit risk deterioration (§16 and 17). Moreover, it has assessed that relevance would not be optimized by recognizing all modifications gains and losses in P&L, particularly when clients have a prepayment right on loans. The ANC finds then very surprising that in its conclusion EFRAG (§19) does not estimate that such recognition may be acceptable due only to "*the difficulty to distinguish between the two types of modifications*". We strongly challenge this assessment as it is inconsistent with the need and the obligation for financial institutions to closely follow the credit risk of their clients in order to manage any deterioration in order to limit losses and to track these deteriorations for accounting purposes as well under the new impairment model of IFRS 9. Regarding this issue, banks have indeed undertaken to improve their knowledge of their customers' behavior through the KYC (Know Your Client) process. Additionally, since 2014, financial institutions are also required to specifically identify forborne financial assets for regulatory reporting purposes, leading to a clear distinction between

modifications of contractual terms of loans due to commercial renegotiations and restructurings of loans due to credit risk purposes.

This issue should be included in the post implementation review.

9. Sub LIBOR issue: the *ANC and EFRAG recognize the lack of any solution for this issue.* This issue has been considered by IASB in its project on Accounting for Dynamic Risk Management (macro hedging), but this is also a micro hedging issue which is presently highlighted in a specific context of very low interest rate. The currently existing negative interest rates now question the argumentation of IASB about the implicit floor to zero.

3 EFRAG's initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

(a) Do you agree with this assessment?

X Yes with caveats ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

YES with caveats

Assessment of the principle of prudence :

- The definition included in the DEA (caution in conditions of uncertainty) comes from the Exposure Draft conceptual framework for financial reporting issued by IASB.
- The bulletin of April 2013 « Getting a better Framework », jointly issued by EFRAG and the British, German, Italian and French accounting standard setters, addresses the concept of prudence more precisely in its point 2 « *the essence of prudence is that assets and income are not overstated, and that liabilities and expenses are not understated* ». We then question the arguments used by EFRAG in appendix 2 when prudence is presented as a support for measuring financial assets at fair value.
- Recognizing unrealized gains on financial assets that are not held for trading purposes (§186) leads to overstate the value of these assets in the balance sheet with regards to the Business Model in which they are managed, which is inconsistent with the approach promoted in the bulletin of April 2013. The ANC regrets that EFRAG is proposing to manage the inconsistency between a fair value measurement and a banking book holding purpose through specific disclosures as this will increase complexity, lead to Level 3 measurement, and reduce the understandability of the reported performance and financial situation of the reporting entity.
- Recognizing in P&L rather than in OCI unrealized gains on investments held as strategic holdings or a long-term investments (§188) leads to overstate

income, which is once again inconsistent with the approach promoted in 2013. Applying a fair value measurement basis in the balance sheet shall not preclude the recognition of the related unrealized gains or losses in the appropriate caption of the statement of performance (either P&L or OCI) depending on the underlying business model. Considering that the fair value measurement on the balance sheet outweighs the disadvantage of precluding any recycling between OCI and P&L equity is detrimental to the understanding of the entity's performance on its strategic and long-term investments, and may increase the complexity of its financial statements through the use of non GAAP disclosures.

<u>Interaction between impairment and the concept of prudence (appendix 2 § 189)</u>

ANC acknowledges that the impairment model included in IFRS 9 would lead to a prudent accounting as it allows, by anticipating expected losses on assets without any credit event, to prevent the «too little/too late » effect pointed out by the G20 under the current IAS 39 impairment model. In this regard, and all other things being equal, we expect an increase of allowances on FTA.

- Prudence seems more questionable when applying a forward-looking approach, depending on the way this approach will be applied :
  - Nothing seems to restrain the use of improving forward-looking information (allowing to anticipate lower risks in the future)
  - Introduction of significant elements of judgment, which may increase measurement uncertainty related to the use of models that will need to be back-tested and consistently applied throughout groups and over time.

- Comparing the EL accounting model of IFRS 9 with the "Risk premium model".

  There are circumstances where the 12-month expected credit losses model is more prudent than the above described risk premium model (see description on the Point 2 § 6.a): for instance, the model can be deemed to overstate losses at initial recognition as there is no economic loss if credit risk is reflected in the initial price of the instrument. This is generally the case when the credit losses occur evenly during the life of the financial instruments or occur at an early stage in the life of the financial instruments. There are also exceptional circumstances where the 12-month expected credit losses model may be less prudent than the risk premium model. It is the case in particular when losses occur at a late stage of the life of the financial instruments, unless the 12-month standard period is extended to a proper horizon under the option offered by IFRS 9 in paragraph B 5.5.13.

  The ANC assesses that IFRS 9 introduces an element of additional prudence in most cases. The magnitude of this element of additional prudence depends on the pattern of loss occurrence over the life of the

corresponding financial instruments.

Interaction between the extension of the fair value measurement and the concept of prudence

As mentioned in our answer to question 2, the removal of the bifurcation of derivatives embedded in structured assets, the obligation to use fair value for measuring non quoted equity instruments, and the consequences of the SPPI test may increase the volume of financial measured at FV through P&L.

As far as it may increase the use of Level 3 FV measurement on financial assets, we question how it will fit with the concept of prudence when overstating the unrealized gains recognized in P&L on assets that are not held for trading purpose.

Conclusion

Prudence is one of the assessments asked by the European Commission to EFRAG for advice. The DEA uses a definition extracted from the Exposure Draft of IASB on conceptual framework, but the concept of prudence appears more consistent and precise in the bulletin of April 2013 (signed by EFRAG and national standard setters): the way the concept of prudence is used in several paragraphs of the DEA as a promotional vehicle for using FV should be reviewed in the light of the approach developed in 2013.

(b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

(c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

See above.

The European public good support

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

IFRS 9 compared to IAS 39

5 EFRAG's initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

X Yes with caveats ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

YES with caveats

As mentioned in our answer to question 2, ANC acknowledges that some improvements have been implemented in IFRS 9 compared to IAS 39 (better focus on business models, risk management and hedging strategies, reduction of the rule-based complexity of hedge accounting, adequacy of the answer to G20's concerns regarding impairment for credit risk).

However, ANC has still strong concerns about the prohibition to reclassify financial assets out of the fair value through P&L or OCI when these assets are no more liquid following a collapse of their market. Since the initial business model applied by the entity (which includes ability to sell the asset) is no more applicable, we do not consider as relevant and understandable to continue to apply a fair value measurement. In 2008, such disappearance of an active market has been considered by the European commission and the TEG of EFRAG as a legitimate cause for reclassification of financial assets measured at fair value provided the purpose of their holding was modified in such a way that those assets were then held under a different business model: it is the case when assets initially managed for short term profit-taking are then managed in a run-off or amortisation perspective and funded by dedicated resources after their market became inactive. IASB has then issued an amendment to IAS 39 that was approved by EFRAG and endorsed by the European union.

EFRAG agrees with this analysis in §13 of the appendix 3 and estimates that "*restrictions on reclassification under IFRS 9 in such circumstances may reduce the relevance of the information provided*". Nevertheless, EFRAG concludes, as in § 33 of appendix 2, that the restricted requirements of IFRS 9 remain suitable in normal time.

As IFRS 9 was aimed to bring answers to the issues raised during the 2007/2008 crisis, we do not agree that its provisions should be tailored for normal time only,

ignoring what was improved in November 2008 to face exceptional situations that were not addressed appropriately through IAS 39. And we have seen no argument in the DEA that helps to understand how EFRAG considers as appropriate to limit its appreciation of the relevance and suitability to normal time only. The circumstances of disappearance of active markets do not characterize "normal times", so arguments should be reviewed.

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

European public Good/impairment model; impact on financial stability

1. A most probable effect that is expected from the application of IFRS 9 is to increase the procyclicity of net income, and to introduce a higher sensitivity on performance and own funds of banks to all variation on credit risks. The arguments of EFRAG on the "European public good" on such item appears weak («*Such changes in profit or loss will generally be less pronounced for stable portfolios although they are likely to be higher in the early phase of a credit deterioration*»).

2. Supervisors have already started but not yet finalized the impact assessment of the new impairment model on the prudential requirements imposed to financial institutions. The current uncertainty about the prudential response to this new accounting environment may raise concern on financial stability. This is a crucial point to be analyzed on the perspectives of capacity of banks to finance the economy.

   ANC understands that no update of capital regulatory framework should be available on timely basis (2017).

   Financial communication, analysts and markets participants, are very sensitive to any variation on capital adequacy, and the most probable situation is that no prospective information will be available during 2017.

   The ANC is on the opinion that EFRAG should, at least, inform the European Commission of any potential effect on financial stability coming from a lack of global view including both accounting and banking regulation perspectives before the first application of IFRS 9.

   Argumentation in the cover letter of the DEA should be adapted to the risk on financial stability coming from the current absence of indications on the response from banking regulators to the new accounting impairment model (cf. cover letter " *Higher credit loss provisions are also expected to affect the regulatory capital of banks. EFRAG understands that the interactions of IFRS 9 with the existing*

prudential requirements will need to be assessed further. Furthermore we have received advice that changes in capital requirements, state of the economy and market competition are expected to impact issuers' behaviors more than changes in accounting. As a result we are not able to assess whether an increase in credit loss provisions would have a significant impact on lending activities.").

EFRAG should recommend the EC to officially launch a project on this issue before issuing any positive endorsement advice.

European public Good: the lack of quantitative assessment of the impairment model

Given the lack of comprehensive simulations of the expected impacts of IFRS 9, EFRAG should ask the European commission to appoint an agency (EBA) or ECB which could oblige companies to provide their quantitative assessment.

EFRAG should also explicitly highlights in its DEA that European institutions (including the Commission) need to establish a suitable organization for bringing modifications that may become necessary if its effects (in 2017) appear to be detrimental to the European public good.

The lack of convergence with US GAAP

6 EFRAG's initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

X Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

The ANC supports the IFRS 9 impairment model as a more suitable model compared to US GAAP project on impairment:

- The ANC is of the opinion that FASB's proposals look more adapted to the business model of the US banking activities, in which loans are originated but sold or securitized in a short term. In such a business model, increasing the amount of credit losses as credit risk is deteriorating is of less importance and recognizing credit losses expected on a foreseeable future appears more consistent with a potential sale or securitization of the loans.
- The current proposals of the FASB regarding accounting for credit losses ignore the linkage between the progressive recognition of revenues and the appearance of losses, which, in the view of ANC, is a key feature to provide an appropriate and relevant depiction of economic reality. Then, regarding the FASB model, the definition of what constitutes a "foreseeable future" (which could lead to no more than 2 or 3 years) is one of the main issues.

But since the FASB model has been developed and tailored for a US context, the ANC considers inappropriate any future benchmark that would compare "life time expected loss model of IFRS 9" to "foreseeable future expected losses under US GAAP".

- From a conceptual point of view, the ANC already explained its preferential view on a "risk premium model" (see point 2, 6.a) of this document), and the progressive approach of the impairment model of IFRS 9 looks more consistent for European entities than the FASB model which ignores interest income that are expected to be received until the maturity of the assets.

Miscelaneous :

- We recommend avoiding words such as « foreseeable » in §189 of the appendix II, in order to prevent any confusion and misinterpretation on EFRAG's opinion about the US approach (see comments above).

(b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Impact on investor and issuer behaviour

7 EFRAG's analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

X Yes with caveats ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Yes with caveats

ANC welcomes the presentation into OCI of changes in own credit risk on financial liabilities designated at fair value through P&L (fair value option). Nonetheless, ANC regrets that such improvement has not been introduced through a limited amendment of IAS 39 that could have been issued and then adopted by

the EU much earlier. It would have helped investors to better understand the net income and the performance of entities that issue structured debts and use the fair value option to measure them. It would have simplified issuers' financial communication by avoiding to use non GAAP information to adjust net income from own credit risk revaluation.

On other issues, ANC considers that the accounting treatments provided by IFRS 9 may negatively impact investor or issuer behaviour :

Investments on equity instruments:

The ANC does not support the prohibition of recycling gains or losses from OCI to P&L when the equity instruments are sold or impaired. ANC agrees with EFRAG that for long-term investors, including insurers, the option to recognise fair value changes in OCI is not a preferred solution. This prohibition does not give a true and fair view of the performance of the underlying business model, which looks contrary to the principle set out in the article 4(3) of Directive 2013/34/E (article referenced in the letter of the European Commission for EFRAG): "*The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss ...*".

It will lead to confusion between P&L and OCI when assessing the performance of the entity. As mentioned by EFRAG, long-term investors that will elect to measure their equity investments at fair value through OCI may be inclined to develop non-GAAP measures to provide relevant and understandable information to users of their financial statements. It should also be noted that the Exposure-Draft Conceptual Framework for Financial reporting issued in May 2015 states that "*income and expenses included in the statement of profit or loss are the **primary** source of information about an entity's financial performance for the period.*"(art 7.21, ED/2015/3). Should the IASB confirm this approach, we would then expect the Board to reconsider the prohibition on recycling gains or losses from OCI to P&L.

With regard to equity instruments held by insurers, when the return on the assets is shared with policyholders (participating contracts), prohibiting the recycling of gains or losses on assets would create an accounting mismatch due to the asymmetry with the liability change which has to be booked through P&L.

Moreover, ANC does not share EFRAG's view that it is unlikely that investors would change their investment strategy as a result of the implementation of IFRS 9. The issue is all the more crucial for investors whose business model is concentrated on long-term equity investments and for which the effect of IFRS 9 will be detrimental on the performance disclosed in their financial statements. The non-recycling constraint may then have detrimental effects on the long-term investment activities and will not help to develop financing activities through capital market as it is currently promoted by European authorities.Additionally, should such prohibition reduce the investors' appetite for equity instruments, it could then raise concerns for entities such as financial institutions that are facing new prudential requirements such as strengthened solvency ratios. These entities will need to issue new equity instruments to enhance the level of their own funds in order to meet the new regulatory requirements.

The main argument that has been put forward to forbid the recycling into P&L of gains or losses accumulated in OCI is related to the impairment model to be applied to equity financial assets. When providing a single impairment model that only applies to basic lending instruments (managed in hold to collect or hold to

collect and sell), IASB has given the priority to simplicity over relevance of the net income and consistency with the business model. ANC does not agree with EFRAG when it estimates that "*any limitation to relevance of the information is balanced by the fact that the approach is principle-base and avoids complexities.*" As mentioned before, this is contrary to principles set up by the Directive 2013/34/E, and the ANC estimates that consistency with the business model of investors and relevance of their income outweigh the criteria of simplicity used in the DEA.

The need for a new impairment model for equity investments should not be an obstacle for reconsidering the eligibility of equity financial assets to the fair value through recyclable OCI category.

This issue should be included in priority in the revision of IFRS 9, closely after the adoption of the framework.

Business Combinations: how to avoid the D1 loss related to assets measured at amortised costs

The case specified in point 2 (§ C.7.c), also constitutes an issue for any investor that perform business combinations. The counter-intuitive effect of the D1 loss related to debt financial assets newly recognized in the consolidated balance sheet through the business combination, despite their initial recognition at fair value, may once again leads to non-GAAP information.

(b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Inter-relationship of IFRS 9 with the future insurance contracts standard

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS

4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

X Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

The ANC fully supports the current conclusion of EFRAG and its proposal to advise the European Commission to ask the IASB to allow insurers to defer the effective mandatory date of IFRS 9 and to align it with the effective date of the future insurance contracts standard.

Indeed, insurers provide insurance coverage and follow long-term asset and liability management ("ALM") strategies to meet their obligations towards policyholders. The interaction between assets and liabilities is key in the business management and performance reporting of insurers. Applying IFRS 9 before the IFRS 4 phase II standard is finalized and is effective will lead to use an accounting framework with disjointed standards, which is inconsistent with the insurance ALM business model of many insurers.

The ANC is convinced that the application of IFRS 9 together with the current insurance standard IFRS 4 Phase I will result in significant additional Profit and Loss volatility for many insurers (only partially mitigated by "shadow accounting"), given the anticipated increase in investments that will require fair value through P&L accounting due to failure of meeting the Solely Payments of Principal and Interest ("SPPI") criteria. Under the current IFRS 4 Phase I, this additional volatility can only be partially mitigated by the "shadow accounting" due to the limited scope of that mechanism. That would not constitute an improvement compared to the current situation with IAS 39 until IFRS 4 phase 2 becomes applicable.

Like EFRAG, we have noted that reviewing twice the classification and measurement basis of financial assets (on the effective date of IFRS 9 and further at the effective date of the future insurance contracts standard) will mechanically increase the complexity of the successive transitions and the related implementation costs that will be incurred by insurers. But if the effective date of IFRS 9 were not deferred to be aligned with the effective date of the future insurance contract standard, the ability to review the classification and measurement basis of financial assets when the revised IFRS 4 will become effective would be crucial for insurers.

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

X Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

We agree that, unless the IASB amends the effective date for IFRS 9 (which would be the most suitable solution), the EU endorsement should allow insurance entities, including the ones consolidated within a conglomerate, to delay the mandatory effective date of IFRS 9 until IFRS 4 phase II comes into effect.

The main reason is that, for many insurers, applying IFRS 9 with the existing insurance standard would produce financial statements showing results which would be less reflective of the economic performance compared to those prepared using IAS 39 and so do not meet the endorsement criteria of relevance/understandability.

The ANC believes that EFRAG should recommend this alternative solution in the finalization of its endorsement advice.

(c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

The ANC believes that EFRAG has highlighted the main issues for insurers. The ANC also considers that the optional deferral of IFRS 9 by insurance entities, including those consolidated with a conglomerate, will not result in significant accounting or presentation issues. Indeed, when the different activities (insurance and non-insurance) represent significant operating segments, they are disclosed by conglomerates separately in their consolidated financial statements. And regarding the issue related to transfers of financial assets between insurance and non-insurance segments, it appears from our constituents that they are rare in practice. Nevertheless, even if a transfer occurs, ANC understands that according to IFRS 8 art 27(a), the conglomerate would have to provide appropriate disclosures on the basis of accounting for such transfers; therefore, those transfers should not be considered as an issue for the optional deferral of IFRS 9.

Even if the idea was introduced by some, the ANC believes adjusting the liabilities under IFRS 4 phase 1 is not a relevant solution. For instance, using the Solvency II basis liabilities measurement would not be relevant under IFRS 4 phase I to mitigate the impact of IFRS 9. Indeed, Solvency II is a regulatory framework with a focus on capital requirements. As such Solvency II has no requirement regarding the Profit and Loss account and does not comply with the reporting requirements of the IFRS. The required adaptations would lead to significant costs, if even feasible. Furthermore, as IFRS 4 phase II is not expected to be fully aligned (eg discount rate) with the Solvency 2 framework, it would introduce a temporary change to the liabilities followed by a second change when IFRS 4 phase II is in force. Finally, an intermediate accounting basis (either Solvency II or any another

basis such as expanding the shadow accounting that would have to be developed because not currently available) between phase I and phase II would add yet more complexity to the industry reporting and confusion to users.

European carve-out

10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

(a) Do you agree with this assessment?

X Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

ANC agrees that the European carve-out remains applicable for entities that will choose to apply IFRS 9 to micro-hedging transactions only and to keep IAS 39 treatments for macro-hedging transactions until the finalization of the IASB's dedicated project on macro hedge accounting.

EFRAG should then require a great care in order to maintain unchanged the paragraphs of IAS 39 that deals with hedge accounting and those that were carved-out.

(b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Costs and benefits of IFRS 9

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG's initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

ANC, as a standard setter, is not in position to have any judgement on this issue.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG's initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

13 EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

Overall assessment with respect to the European public good

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

X Yes with caveats ☐ No

If you do not agree, please explain your reasons.

YES with caveats

Before issuing the endorsement advice, ANC recommends EFRAG to clearly summarize in its conclusion on the global assessment of IFRS 9 all the residual issues and caveats that have been identified even if they have not been regarded as crippling for the endorsement. It will then ensure that IFRS 9 will not be endorsed by the European Union without having the "eyes wide open" on issues related to financial stability (see items on §5 above).

Furthermore, §174 of the DEA states *"its adoption is conducive to the European public good in that improved … and lowers the cost of capital"*.

For regulated entities that are expected to follow regulatory requirements and prudential ratio based on or derived from IFRS accounting figures (such as banks for instance), this argumentation should be amended, or abandoned.

Indeed, without a comprehensive assessment of the quantitative consequences of IFRS 9, it is not possible to document a lowering of the cost of capital. Moreover, expectations on a probable permanent increase of impairment allowances (as far as stage 1 financial assets are not currently subject to impairment allowances under IAS 39) conducts to very low chances to lower the cost of capital for financial institutions subject to capital requirements that will mechanically be affected by these additional allowances.

Other issues for consideration

Request to provide quantitative data on a confidential basis

15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG's field-work policy which is available on the EFRAG website.

Should endorsement be halted until quantitative data are available?

16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

☐ Yes X No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

The ANC, in its letter to EFRAG dated 31 August 2011, expressed the need for an ex-ante evaluation of any accounting standard based on simulations of its expected effects prior to its adoption. The ANC recognizes the efforts made by EFRAG in order to obtain quantitative assessments of IFRS 9. However, since limited inputs were collected, EFRAG reached its preliminary conclusions relying on a limited quantitative assessment, in particular on the impacts of the new impairment model.

As the implementation of this new impairment model for credit risk will represent one of the most volatile and sensitive consequences of IFRS 9 for the banking industry, we consider that assessing the consequences of such a new standard on the basis of so limited quantitative information would create an unfortunate precedent. In addition, the importance of quantitative assessment has been demonstrated by the discussions held by EFRAG with the insurance industry.

Therefore, the ANC is of the view that EFRAG should ask the European Commission to appoint an agency (EBA) or ECB which could request financial institutions to provide their quantitative assessments. EFRAG should also explicitly highlight in its DEA that European institutions (including the Commission) need to establish a suitable organization for bringing modifications that may become necessary if impacts (in 2017) appear to be detrimental to the European public good.

Should early application of IFRS 9 be prohibited?

17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

☐ Yes X No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Regarding regulated industries, the ANC has noted that the European banking Authority was not in favour of an option to allow an early application of IFRS 9.

Indeed, entities belonging to some regulated industries are required to fill regulatory reports and to calculate prudential ratios that can be based on IFRS figures or that can use such figures.

As a consequence, mostly for the banking industry, any optional early application of IFRS 9 would then introduce inconsistency between the reported data and would impose to supervisors to be able to receive two different sets of reports based on two different accounting frameworks depending on the anticipation or not of IFRS 9 by the reporting banks.

Calculation of prudential ratios on the basis of equities determined according to different underlying accounting standards would also create discrepancies between regulated entities that could lead supervisors to impose an alignment of all supervised entities.

The ANC generally supports early application of new accounting IFRS standards. But regarding regulated industries, and mostly banks, the ANC has a restrictive opinion to allow an early application of IFRS 9, excepted for the application of art 7.1.2 of IFRS 9 related to the own credit risk. Indeed, the ANC fully supports the ability granted by IFRS 9 to early apply the specific provisions that require the presentation in OCI of the effects of changes in the liability's credit risk when the liability has been designated as at fair value through P&L (Fair value Option), because this early application option is independent from all the other provisions of IFRS 9.

More broadly, financial analysts (SFAF) have told us that they do not support an early application of IFRS 9. Given the significant changes that are expected from the application of the new standard, analysts fear that allowing an early application would be detrimental for the comparability of financial statements issued before 2018.