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**Reference: ED 2015/11 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the ED 2015/11 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Silvio Takahashi
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

## QUESTIONS FOR RESPONDENTS

**Question 1—Addressing the concerns raised**

Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard:
(a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16).
(b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraph BC17–BC18).
(c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (paragraphs BC19–BC21).
The proposals in this Exposure Draft are designed to address these concerns.
Do you agree that the IASB should seek to address these concerns? Why or why not?

**Answer to question: 1(a) to 1(c)**

Yes, we do agree with the above proposal. In fact, we believe that the mismatch of the effective dates between IFRS 9 and the new insurance contracts Standard could increase the earnings management practice in this field, hence worsening the comprehensibility and predictability for the users of financial statements.

Additionally, it is important to consider the trade-off relation to apply two standards with similar contents in a short period of time. Such implementation could create unnecessary costs for adoption of IFRS 9 and generate benefits for a limited period of time until IFRS 4 is adopted.

Other arguments, such as, temporary accounting mismatches, difficulties of explaining volatility of results to stakeholders and changes in analysts' models should be considered as additional burdens in this context. To illustrate some inconsistencies, we point out a situation of an insurance company that is controlled by a financial group, on which the controlling entity is adopting IFRS 9 and the subsidiary is not. This scheme will definitively generate accounting mismatches.

For the above reasons, CPC believes that IFRS 9 and the new insurance contracts standard should be simultaneously implemented by the insurance industry.

**Question 2—Proposing both an overlay approach and a temporary exemption from applying IFRS 9**

The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4:

(a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets that:

(i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but

(ii) would not have been so measured applying IAS 39 (the 'overlay approach') (see paragraphs BC24–BC25);

(b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the 'temporary exemption from applying IFRS 9') (see paragraphs BC26–BC31).

Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not?

If you consider that only one of the proposed amendments is needed, please explain which and why.

**Answer to question: 2 (a) and (b)**

According to the answer of question (1), CPC evaluates that providing a temporary exemption from applying IFRS 9 for the insurance industry does not cure the related problems.

CPC believes that the timing for the application of IFRS 9 should be consistent for all industries, besides the insurance sector. Furthermore, the insurance contracts standard is currently under discussion in the Board. So, according to this context, providing a temporary exemption to the insurance entities does not appear to be the best alternative.

About the overlay approach mentioned by the Board in item (a), it does not appear to be an effective solution for the related problems, given that it only deals with certain accounting mismaches, and usually insurance companies use their equity as a key indicator for measuring regulatory levels of capital and solvency. We cannot currently measure the real impacts of this propose.

**Question 3—The overlay approach**

Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach.

(a) Paragraphs 35B and BC35–BC43 describe the assets to which the overlay approach can be applied. Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why?

(b) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income applying the overlay approach.

Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why?

(c) Do you have any further comments on the overlay approach?

**Answer to question: 3(a) to (c)**

As indicated in paragraph BC 32, the overlay approached intends to address the concern raised by the additional accounting mismatches caused by the adoption of IFRS 9 before the issuance of the new insurance contracts standard.

The overlay approach using OCI creates additional costs for the entities and extend the disclosures in the notes to the financial statements, which may not be easily explained to the analysts and others stakeholders.

We also believe that the use of OCI to promote a reconciliation between timing mismatches in the adoption of two different standards does not have technical backgroung within the IFRS framework.

**Question 4—The temporary exemption from applying IFRS 9**

As described in paragraphs 20A and BC58–BC60 the Exposure Draft proposes that only entities whose predominant activity is issuing contracts within the scope of IFRS 4 can qualify for the temporary exemption from applying IFRS 9.

(a) Do you agree that eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity's predominant activity is issuing contracts within the scope of IFRS 4? Why or why not? If not, what do you propose instead and why?

As described in paragraphs 20C and BC62–BC66, the Exposure Draft proposes that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities (including liabilities arising from contracts within the scope of IFRS 4).

(b) Do you agree that an entity should assess its predominant activity in this way? Why or why not? If you believe predominance should be assessed differently, please describe the approach you would propose and why.
Paragraphs BC55–BC57 explain the IASB's proposal that an entity would assess the predominant activity of the reporting entity as a whole (ie assessment at the reporting entity level).

(c) Do you agree with the proposal that an entity would assess its predominant activity at the reporting entity level? Why or why not? If not, what do you propose instead and why?

**Answer to question: 4 (a) to (c)**

Yes we do agree with such proposal. We do not foresse any issues in Brazil, given that only entities regulated by the Superintendência de Seguros Privados – SUSEP (Private Insurance regulator), Agência Nacional de Saúde – ANS (health care insurance regulator) and Superintendência Nacional de Previdência Complementar – PREVIC (pension fund regulator) can issue insurance contracts.

**Question 5—Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?**

As explained in paragraphs BC78–BC81, the Exposure Draft proposes that both the overlay approach and the temporary exemption from applying IFRS 9 would be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied.

(a) Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional? Why or why not?

(b) Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

**Answer to question: 5 (a) to (b)**

We disagree that both the overlay approach and the temporary exemption from applying IFRS 9 should be optional, but rather should be mandatory, if adopted. We understand that there is no need for the Board to provide these alternatives. Creating an accounting choice in this field could estimulate discretionary practices and increase earnings management behavior, given that, in general, insurance industry is regulated by local authorities and has similar and very concentrated economic activities.

According to the CPC viewpoint, the implementation of IFRS 9 should be simultaneously adopted by all industry sectors. For example, besides the insurance industry, the Real State industry is also affected by IFRS 9 whereas having to adopt a specific standard.

**Question 6—Expiry date for the temporary exemption from applying IFRS 9**

Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021.

Do you agree that the temporary exemption should have an expiry date? Why or why not?

Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expiry date would you propose and why?

**Answer to question:**

We do not agree with the exemption for the adoption of IFRS 9 should be applied only to insurance companies. We believe that the implementation of this standard should be consider for all industries, in order to mitigate the mismatch effects in situations when a bank controls an insurance company, for example.