



To: ECON Members of the IFRS Working Group: attn. Mr Theodor Dumitru Stolojan MEP (Chair), Ms Pervenche Berès MEP, Mr Sven Giegold MEP, Mr Syed Kamall MEP, Mr Fabio De Masi MEP, Ms Cora van Nieuwenhuizen MEP;
European Commission: attn. Mr Jonathan Hill, Mr Olivier Guersent, Mr Ugo Bassi, Mr Erik Nooteboom

Cc: EFRAG: attn. Mr Roger Marshall;
IASB: attn. Mr Hans Hoogervorst;
ESMA: attn. Mr Steven Maijor

Submitted electronically

Subject: Eumedion sees urgent need for endorsement of IFRS 9 Financial Instruments without further delay

Ref: B15.24

The Hague, 30 November 2015

Dear ECON Members of the IFRS Working Group and representatives of the European Commission, Eumedion appreciates the opportunity to share our views on EFRAG's draft letter to the European Commission supplementing the endorsement advice on the adoption of IFRS 9 Financial Instruments ('Draft Letter').¹ We hope our comments may provide useful input to the public hearing that ECON organises on 1 December 2015, and to any subsequent considerations in the endorsement process of IFRS 9.

Eumedion is the representative of the interests of over 70 institutional investors, all of whom are committed to a long term investment horizon. Eumedion aims to promote good corporate governance

¹ http://www.efrag.org/files/IFRS%209%20and%20IFRS%204/Further_information_related_to_the_endorsement_of_IFRS_9_-_draft_letter_to_EC.pdf

and sustainability in the companies our participants invest in. We regard accounting standards as a critical part of a global financial infrastructure, especially since investors are dependent on the quality of accounting standards for allocating their own and entrusted capital. Together our participants invest over € 4 trillion of capital in equity and corporate non-equity instruments.

No further delay in endorsement of IFRS 9

The financial crisis highlighted the significant shortcomings in the accounting for financial instruments under IAS 39 'Financial Instruments: Recognition and Measurement', which still is effective in Europe no less than eight years after the start of the financial crisis. Because of these shortcomings, investors experience more difficulty in assessing the strength of individual banks and insurance companies. If the endorsement of IFRS 9 in Europe were to encounter any further delay, this would increase the risk that in times of renewed market turbulence the financial reporting of banks and insurance companies in Europe will, again, fail to help investors find a reasonable basis for providing capital to these institutions just when they may need access to capital most. Eumedion therefore sees an urgent need to revise how financial instruments are accounted for.

Support for loan loss provisioning model as developed by IASB

We strongly subscribe to the loan loss provisioning model in IFRS 9 as set by the IASB, above FASB's 'first-day-loss model'. A major drawback for investors of this 'first-day-loss model' is that it does not provide an accurate depiction of the underlying economics. Not only is it counter-intuitive for investors that an entity triggers a negative performance at the moment of providing a loan, it also results in understating book equity. Some would describe FASB's model as being more 'conservative', but even that can be debated: the first-day-loss approach overstates the return on equity in each and every subsequent year up until maturity of the loan. The first-day-loss model gives false signals to investors. The first-day-loss model may even incentivise providers of capital to stop providing new loans in times of crisis as new loans unduly punish their book equity and performance.

Investors are served by international solutions

The 2014 Maystadt report and the 2015 European Commission's evaluation on the use of IFRS have both advocated that solutions to financial reporting challenges should be sought at an international level, rather than a European level. We therefore encourage the European Commission to continue to work with the IASB to seek an international solution to the consequences of IFRS 9 for the insurance sector. Investors are well used to factoring in accounting challenges in the analysis of the insurance sector. Full endorsement of IFRS 9 would provide investors with a much better starting point for the analysis of insurance companies than the currently effective IAS 39. The financial reporting in the

insurance sector may even be the best example of reporting where many adjustments have to be made by investors because of the lack of robust international accounting standards for assets and liabilities typically held by insurance companies. Eumedion wishes that Europe would throw its considerable weight behind working in close cooperation with the IASB to develop an international solution, not just a European one.

We would disagree with the notion that endorsement of IFRS 9 should only take place after certain amendments for the insurance industry are finalised by the IASB. Firstly, because there is no reason to doubt that the IASB will find a workable solution in time. And, secondly, better information reduces risks of investing and most importantly provides transparency when it is needed most to help build trust and better safeguard access to capital markets today and mitigate the severance of any future crisis.

ESMA's recent comments on IFRS 9 Financial Instruments endorsement process

We took notice of ESMA's response to the Draft Letter to EFRAG dated 19 November 2015.² We would like to emphasise that Eumedion generally concurs with ESMA's views on this topic.

If you would like to discuss our views in further detail, please do not hesitate to contact us. Our contact person is Martijn Bos (martijn.bos@eumedion.nl, +31 70 2040 304).

Yours sincerely,

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² http://www.esma.europa.eu/system/files/2015-1749_esma_comment_letter_to_efrags_draft_letter_to_the_european_commission_supplementing_its_endorsement_advice_on_adoption_of_ifrs_9.pdf