המוסד הישראלי לתקינה בחשבונאות
Israel Accounting Standards Board

February 7th, 2016

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
<u>United Kingdom</u>

Dear IASB members,

Exposure Draft ED 2015/11 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Proposed amendments to IFRS 4

The Israel Accounting Standards Board welcomes the opportunity to comment on the IASB's Exposure Draft *ED 2015/11 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Proposed amendments to IFRS 4* published in December 2015.

Please find below our detailed comments for the questions raised in the ED:

14 Gruzenberg st., Tel-Aviv 65811, Tel ,972 3 5109977 .רח' גרוזנברג 14, ת״א 65811, טל
www.iasb.org.il , E-mail: iasb@iasb.org.il ,Fax. 972 3 5109988 .פקס

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.

Providing both the overlay approach and the temporary exemption from IFRS 9 would allow insurance entities to apply any of these approaches (provided they meet the criteria) or to apply IFRS 9. In our opinion, providing three options would impair comparability and it is inappropriate. We believe that the Board should provide only the temporary exemption from applying IFRS 9 since the overlay approach is too complicated for users to understand and it requires from insurers to make an operational change. In addition, since the temporary exemption from applying IFRS 9 is a practical exemption, we believe it should apply to any insurer that meets the criteria in paragraph 20A(b), regardless if the insurer has previously applied any version of IFRS 9.

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?

(b) In our opinion, not only the carrying amount of liabilities arising from contracts within the scope of IFRS 4 should be included in the numerator but also other liabilities related to insurance activities should be included in the numerator. For example, provision for claims relating to insurance activity, accounted for in accordance with IAS 37.

(c) In many cases, insurance entities are held by holding entities. Most holding entities would not qualify for the temporary exemption from IFRS 9 since those entities engage in other activities. Consequently, if the insurance entity qualifies for the temporary exemption from IFRS 9 and applies it, the insurance entity would be required to prepare another set of financial statements (that includes the application of IFRS 9) for the consolidation by the parent entity. Due to the burden involved in the preparation of two sets of financial statements, we believe the Board should consider allowing holding entities to consolidate insurance entities' financial statements that include the application of the temporary exemption from applying IFRS 9 if specified terms determined by the Board would be met.

We appreciate the opportunity to provide our comments.

Sincerely,
Dov Sapir, CPA, Chairman
Israel Accounting Standards Board