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Comment Letter No. 181

GDV
DIE DEUTSCHEN VERSICHERER

Sir David Tweedie
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IASB Supplement to ED/2009/12: Financial Instruments: Impairment

Dear Sir David,

We appreciate the opportunity to comment on your Exposure Draft (the 'ED') mentioned above. This letter is drafted on behalf of 468 insurance companies located in and outside Germany represented by the German Insurance Association (GDV). Insurance companies are not only preparers but also important institutional investors, hence users of financial statements.

After proposing different impairment models at the beginning, the IASB and FASB presented with this Exposure Draft a joint proposal for the impairment of open portfolios. In our opinion this joint ED is a significant step forward in developing a consistent and world-wide acceptable accounting standard on Financial Instruments. The German Insurance Industry does not only fully appreciate the Boards' ambitious efforts to achieve convergence in international accounting standards. Furthermore we recognize that the Boards considered the concerns many stakeholders have expressed with regard to complexity. We strongly support the Boards' aim to reduce complexity while maintaining an expected loss model. Therefore we welcome the proposal of a 'decoupled approach' for impairment purposes.

However, we believe that the proposed model in the ED is still mainly developed for the loan book of banks. But as IFRS 9 (or IAS 39) applies to all industries which hold financial assets, including insurers, we still see a number of practical problems with regard to the proposals.

For the determination of expected losses in the good book for instance, there is still the question how these expected values should be appropriately determined. Due to the strict regulations for the investment activities of insurers in Europe, we expect that nearly all assets will be in the good book. Therefore a distinction between good and bad books will not be too

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meaningful for insurers. We hope the Boards will take this into consideration and instead make further proposals which are better suited for non-banks.

We would suggest an approach that separates between loan and bond portfolios. The proposals in the ED are suited for the loan book of banks, but for pure bond portfolios of insurers they are still too complex. Therefore we would suggest for bonds a simpler approach that is comparable to today's regulation for general allowance in Germany. The idea is to build up an allowance account with a fixed impairment percentage of the assets. This would have the same overall effect, but is much simpler to implement and manage.

For the evaluation of expected losses, the overall amount of balances of a certain company is often not sufficient enough to allow own estimates. One generally accessible source for an external quotation are ratings. But ratings may lack reliability for accounting purposes - especially in situations of crises. Therefore from our point of view a too strict dependency on external ratings for expected loss estimations might be critical. On the other hand ratings could be helpful if certain conditions are met. But other sources of information must be acceptable as well.

Concerning the general direction, we appreciate that the new standard is meant to be principle based and should not prescribe too many details. It should be possible to gather practical experiences with the new expected loss model and to develop a best practice for each industry.

Furthermore we worry about the extensive presentation and disclosure requirements set in the ED. We question the usefulness of more and more data, because we believe that these comprehensive information requirements will lead into an information overflow for the users of financial statements. With regard to highly aggregated information systems as financial statements the overall aim should be to provide quality rather than quantity.

We hope that our comments are valuable for the further consideration process. If you have any queries in relations to the issues raised in this comment please feel free to contact Hans-Juergen Saeglitz (extension: -5430) or Dr. Martina Hemsath (extension: -5431).

Kind regards,

(Dr. Wehling) (Säglitz)