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Committee on Economic and Monetary Affairs
The Chair

Lord Jonathan Hill
Commissioner for Financial Stability, Financial Services and Capital Markets Union
European Commission
Rue de la Loi 200
B – 1049 Bruxelles

D 311579 16.06.2016

Subject: IFRS 9 Endorsement

Dear Commissioner,

We understand that the European Commission is about to suggest to the European Parliament and the Council to endorse the international financial reporting standard on financial instruments IFRS 9. The European Parliament's Economic and Monetary Affairs Committee will of course use the regulatory scrutiny period of three months to assess the standard. However, given the relatively short scrutiny period ahead, we would like to already express our concern on whether the adoption of IFRS 9 is fully in line with the Commission's better regulation approach.

You may have noticed that these concerns have also been already reflected in the resolution on '*IAS evaluation and the activities of the IFRS Foundation, the EFRAG and PIOB*', adopted by the European Parliament by a large majority (559 in favour, 36 against, 80 abstentions) on Tuesday 7 June and which notably *'calls on the Commission to make sure that IFRS 9 serves the EU long-term investment strategy'*[1].

We note in particular that IFRS 9 has not been subject to an impact assessment on its macroeconomic consequences and its effects on long-term investment. Equally, there is no proper analysis of its consequences for crucial long-term investment. As the better regulation approach requires proper impact assessments examining the potential economic, social and environmental consequences of proposed options for action, we would like to know the basis the Commission intends to use for a possible adoption of IFRS 9.

In concrete terms, we are wondering whether IFRS 9 will remedy the causes of the financial crisis, as mentioned in the De Larosière report and fulfil the changes required by the G20 in 2009. As IFRS 9 is said to extend the volume of financial assets measured at fair value, the new standard might even increase pro-cyclicality. Additionally, in the course of fair value measurement unrealized gains are also considered in the Profit and Loss Account, thus raising concern as to whether IFRS 9 is fully compliant with the Accounting Directive and the Capital Maintenance Directive. Moreover, in the absence of a proper impact assessment, the effects of the new loan loss provisioning rules on banks' equity levels and financial stability remain unclear. Since it seems difficult to obtain a full ex ante impact assessment under the circumstances, we urge the Commission to closely monitor the implementation of the standard and to prepare an ex post impact assessment no later than June 2019.

[1] cf. recital L, paragraph 1 and 11: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2016-0248+0+DOC+XML+V0//EN&language=EN.

In the short term, there is still no clarity on the interference of IFRS 9 with prudential requirements for banks as well as on the misalignments of IFRS 9 with the new accounting standard on insurance contracts, IFRS 4.Therefore, pending the adoption of the amendments to IFRS 4 and following EFRAG's advice, we would favour the possibility for all regulated insurance companies in the EU, including entities below reporting entity level, to adopt the deferral approach proposed by the IASB.

Concerns also remain on whether IFRS 9 complies with Philippe Maystadt's endorsement criterion that an accounting standard must not hinder the economic development of the Union. We are concerned that the accounting treatment under IFRS 9 of certain financial instruments held directly or indirectly as long-term investments, in particular equity, goes against the overall aim of promoting long-term investment, reinforces the debt bias in the EU and penalises long-term investors, which is in contradiction with key objectives of the Capital Markets Union. In our view, a satisfactory treatment and classification of those instruments, depending on the nature and the purpose of the assets held, should protect long term investors against undue short-term volatility, for instance when portfolios pursue long term coverage instead of speculative trading, while allowing to recycle capital gains and losses in profit and loss at the end of the investment period. We would therefore like to know whether the Commission has considered a specific provision regarding the accounting treatment of those financial instruments, in particular equity.

Finally, the better regulation approach of the Commission also includes REFIT (Regulatory Fitness and Performance Programme) which shall identify opportunities to reduce regulatory burdens and simplify existing laws, in order to ensure that the objectives of the legislation or policy can be reached in a more effective and efficient way. In this respect, we would like to know how the Commission wants to solve the problem of the new standard IFRS 9 being even more complex than its predecessor IAS 39.

For us as co-legislator it is clear that all these issues have to be clarified before a possible endorsement of the new accounting standard IFRS 9 can take place.

We look forward to your feedback on this important matter.

Yours sincerely,

Roberto Gualtieri