REF: 23/24
19 July 2023

Submitted via the IASB website

Dr Andreas Barckow
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Subject: IASB's Exposure Draft on Amendments to the Classification and Measurement of Financial Instruments

Dear Dr Barckow:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Accounting Standards Board (IASB) Exposure Draft (ED) on *Amendments to the Classification and Measurements of Financial Instruments* issued in March 2023.

The IAIS is a voluntary membership organisation of insurance supervisors and regulators from more than 200 jurisdictions. The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe, and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

Established in 1994, the IAIS is the international standard-setting body responsible for developing principles, standards, and supporting material for the supervision of the insurance sector and assisting in their implementation. The IAIS also provides a forum for members to share their experiences and understanding of insurance supervision and insurance markets.

The IAIS coordinates its work with other international financial policymakers and associations of supervisors or regulators and assists in shaping financial systems globally. In particular, the IAIS is a member of the Financial Stability Board (FSB) and a member of the Standards Advisory Council of the International Accounting Standards Board (IASB). In recognition of its collective expertise, the IAIS also is routinely called upon by the G20 leaders and other international standard-setting bodies for input on insurance issues as well as on issues related to the regulation and supervision of the global financial sector.

The IAIS welcomes the IASB's proposed amendments contained in the ED and the intention to clarify and improve understandability of the classification and measurement requirements of IFRS 9 *Financial Instruments*. To date, many insurers have not reported annual results based on IFRS 9. However, given the introduction of IFRS 17 *Insurance Contracts*, more insurers will begin to do so in 2023. The IASB's proposal relating to the contractual terms that are consistent with a basic lending arrangement will be particularly relevant for insurers if the prevalence of financial instruments with Environmental, Social and Governance (ESG) features continues to increase.

As the IASB works towards finalising the proposed amendments, it may wish to consider the following points:

1. Derecognition of a financial liability settled through electronic transfer

No comments.

2. Classification of financial assets – contractual terms that are consistent with a basic lending arrangement

The IAIS supports the IASB's intention to provide greater clarity in relation to what constitutes a "basic lending arrangement" given the increasing prevalence of investments with ESG features. The interpretation of what is a basic lending instrument and what constitutes "Solely Payments of Principle and Interest" may affect the extent to which instruments can be classified and measured at fair value through other comprehensive income (FVOCI) or amortised cost.

The IAIS notes that the discussion and rationale in the basis for conclusions relating to ESG-linked features in some places seem to focus on amortised cost without obvious parallels in relation to FVOCI (eg. BC43 and BC61). For many insurers, it is likely that the implications of the new proposals on FVOCI will be more relevant. As such, the IASB may wish to consider whether its rationale and considerations for the proposed revisions in the basis for conclusions are as clear for FVOCI as for amortised cost.

Although we support the IASB's objectives, we believe that it may be challenging to apply the proposed new guidance to new instruments. If the principles are not clear, then this could give rise to unwarranted diversity in practice as markets for ESG-linked products continue to grow and evolve. As such, the IAIS suggests that the IASB consider the following two issues further as a priority:

- Greater clarity relating to the principles to apply:
    - Clarity could be aided through the inclusion of additional or replacement examples that more clearly outline the use of judgement and the principles involved.
    - The IASB should consider clarifying how the "…magnitude of the change in basic lending risks or costs" (B4.1.8A) affects the assessment of whether a loan has the characteristics of a basic lending arrangement. This is especially the case given the statement earlier in the same paragraph that "the assessment of interest focusses on what an entity is being compensated for, rather than how much…". The text should be clearer that the magnitude of a change in basic lending costs is relevant to the determination of what the firm is being compensated for as part of the contract.[1]

[1] As implied in BC52: "There is … a relationship between the perceived risk that the lender is taking on and the compensation it receives for that risk"

- Contingent Events Specific to the Debtor:
  - The IASB should carefully consider the requirement in B4.1.10A that "For a change in contractual cash flows to be consistent with a basic lending arrangement, the occurrence (or non-occurrence) of the contingent event must be specific to the debtor." This requirement might cause application challenges for instruments where the contractually specified targets are linked to a parent, a consolidated group, or another entity within the same group. The IASB should consider providing further guidance on how to apply the criteria in such cases.

3. Classification of financial assets – financial assets with non-recourse features

No comments.

4. Classification of financial assets – contractually linked instruments

No comments.

5. Disclosures – investments in equity instruments designated at fair value through other comprehensive income

The IAIS supports these proposed amendments as they contribute to helping investors better understand the performance of investments in equity instruments.

The IAIS notes that, in some jurisdictions, upon the first-time implementation of IFRS 17, many insurers have used the option to present subsequent changes in the fair value of equity instruments in other comprehensive income (per paragraph 5.7.5 of IFRS 9) in order to limit the volatility of their earnings. In some jurisdictions, this is especially the case with regards to portfolios of equity instruments held to cover non-Variable Fee Approach insurance liabilities and their own funds.

As a consequence, the IAIS welcomes the requirement in paragraph 11 A (f) of the ED to provide separately the amount of the changes in fair value arising from instruments derecognised in the period and the amount of that change related to investments held at the end of the reporting period.

6. Disclosures – contractual terms that could change the timing or amount of contractual cashflows

Overall, the IAIS supports the proposal to add disclosure requirements that would help users to understand the magnitude of changes in future contractual cashflows (eg. relating to ESG-linked features) and considers that the proposals will help users in this regard. For example, the disclosures will contribute to a greater understanding of the potential for contractual terms to impact on the firm's financial position and results. In turn, this would be expected to aid in the identification of risk and where additional information may be useful.

However, as part of its considerations, the IASB should also weigh the challenges of providing the quantitative information by insurers, especially if disclosures are intended at a granular level. Insurers often hold large amounts of financial instruments, and it is difficult to exclude the possibility that a significant proportion may have contractual terms that relate to contingent events.

Further, the IAIS also notes that there may be some overlap between the proposed disclosure requirements and the amendments set out as part of the IASB's recent amendments to IAS 1 "non-current liabilities with covenants." The IASB should consider if this is its intended outcome and whether this may lead to confusion and/or duplication.

7. Transition

No comments.

8. Other Comments

No additional comments.

This comment letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG) in consultation with IAIS members. If you have further questions regarding this letter, please contact Lydia Kimumwe at the IAIS Secretariat (tel: +41 61 280 8679; email: lydia.kimumwe@bis.org) or Markus Grund, Chair of the AAWG (tel: +49 228 4108 3671; email: markus.grund@bafin.de)

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