



Dr Andreas Barckow
Chair
International Accounting Standards Board (IASB)
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29 June 2023

Dear Dr Barckow

Exposure Draft IASB/ED/2023/2 'Amendments to the Classification and Measurement of Financial Instruments' ("Exposure Draft")

This letter has been drafted by the European Insurance CFO Forum ("CFO Forum"), a body representing the views of 23 of Europe's largest insurance companies, and Insurance Europe, representing 95% of the premium income of the European insurance market. Accordingly, it represents the consensus view of the European insurance industry.

We welcome and appreciate the opportunity to comment on the IASB's Exposure Draft following the Post Implementation Review ("PIR") of IFRS 9 Financial Instruments – Classification and Measurement.

We believe that the IASB's proposed clarifications with regard to the SPPI test are helpful additions to the classification and measurement requirements under IFRS 9. In particular, we agree with the IASB's approach to add:

- Clarifications regarding changes in the financial assets' contractual cash flows and their consistency with a basic lending arrangement, and
- A definition of contractually specified changes in cash flows, and their specificity to the debtor, helping with the assessment of the contractual cash flow characteristics assessment (SPPI test).
- The illustrative examples including how ESG-linked features may impact the contractual cash flow analysis and the resulting classification and subsequent measurement of financial assets.

However, we would like to draw your attention to the following two key highlights related to the proposed new disclosures:

1. IFRS 7 disclosures for equity investments at fair value through other comprehensive income ("FVOCI")

The disclosure of the aggregate fair values and their changes does not bear the same significance as an actual recognition in the P&L ("recycling of realised gains or losses) and cannot be a substitute for proper accounting treatment with recycling of realised gains or losses. So, while we are disappointed that the recycling topic has not already been addressed, we appreciate that the IASB acknowledged in the October 2022 Agenda Paper that sufficient evidence is not yet available on the effects of the IFRS 9 requirements on insurance entities and how these requirements might impact insurers' investment decisions as most insurers have deferred their IFRS 9 implementation until 1 January 2023. We understand and appreciate that the IASB remains open to reconsider their

decision as new information and further evidence becomes available from insurers' simultaneous application and interaction between IFRS 17 and IFRS 9 as of 1 January 2023.

Furthermore, we suggest that the standard should more explicitly state that the disclosures include the cumulative realised gain or loss on equity investments at FVOCI which are derecognised in the current reporting period. From our perspective this will provide the required clarity in the standard and will additionally reinforce the approach illustrated in the draft implementation guidance outlined in IG11A-B, which accompanies but is not part of IFRS 7.

We appreciate the clarification that the disclosures for equity instruments designated at FVOCI is at an aggregate level, which is in line with the current disclosures from reporting entities holding material balances of such instruments.

2. Concern about additional disclosure requirements

Our main concerns about this Exposure Draft relate to the proposed additional disclosure requirements for contractual terms which could change the timing or amount of contractual cash flows contingent on the occurrence or non-occurrence of a contingent event:

- We would question whether these additional disclosures would support the IASB's intentions expressed in its disclosure initiative to provide information that is useful to investors or whether they would rather obscure material information with irrelevant disclosures.
- In this context, while we generally appreciate the flexibility for each reporting entity to define the granularity of the disclosure of possible changes in contractual cash flows by defining the classes of financial assets that are relevant for them, we question the overall usefulness of the range disclosure. In particular, ranges among instruments may be within wide limits and thus be of limited to no value. In our opinion, the benefits to the financial statement users must be balanced with the perceived comparability, usefulness, and cost of introducing such disclosures.

The appendix to this letter includes our responses to the IASB on the Exposure Draft's "Questions for respondents".

We encourage the IASB to finalise the proposed classification and measurement clarification in a timely manner. However we note that, as most insurers have not applied IFRS 9 until this year and therefore many have not reported under IFRS 9 at all, it is important that the IFRS 17 post implementation review scope considers the application of IFRS 9 for insurers as relevant and that there is a sound conceptual link between IFRS 17, IFRS 9 and the new presentational proposals to ensure that the options and judgements available result in meaningful and comparable reporting as a whole.

Yours sincerely,



Giulio Terzariol
Chair
European Insurance CFO Forum



Olav Jones
Deputy Director General
Insurance Europe

APPENDIX

Detailed responses to selected Exposure Draft questions from the CFO Forum and Insurance Europe.

Question 2 - Classification of financial assets—contractual terms that are consistent with a basic lending arrangement

Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:

- a) interest for the purposes of applying paragraph B4.1.7A; and*
- b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.*

The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response to the IASB

We welcome the proposed changes included in the ED as these changes will facilitate the SPPI-assessment and clarify when investments with ESG features may pass the SPPI test. We recommend that an ongoing review of the proposed changes is performed to ensure that future developments in ESG related products are considered in how the SPPI assessments are performed.

While the illustrations are helpful, we recommend that further clarity on the proposed amendments is provided by explaining the rationale for the outcome based on the requirements set out in the standard.

We believe the wording of paragraph B4.1.8A could be improved in order to avoid a potential contradiction between the beginning of the paragraph (on “what” an investor is being compensated for rather than “how much”) and the end of the same paragraph (indicating that, a change in contractual cash flows is inconsistent with a basic lending arrangement if it is not aligned with the direction and “magnitude” of the change in basic lending risks or costs). We believe that the “magnitude” wording should be removed in order to improve the clarity of the proposed amendment because it contradicts the principle that the assessment of interest should not focus on how much compensation an entity receives.

Question 3 - Classification of financial assets—financial assets with non-recourse features

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term ‘non-recourse’.

Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.

Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response to the IASB

We welcome the proposed amendments with no further comment.

Question 4 - Classification of financial assets—contractually linked instruments

The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21– B4.1.26 of IFRS 9.

The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response to the IASB

We welcome the proposed amendments with no further comment.

Question 5 - Disclosures—investments in equity instruments designated at fair value through other comprehensive income

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:

- a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and*
- b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.*

Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response to the IASB

The disclosure of the aggregate fair values and their changes does not bear the same significance as an actual recognition in the P&L (“recycling of realised gains or losses) and cannot be a substitute for proper accounting treatment with recycling of realised gains or losses. So, while we are disappointed that the recycling topic has not already been addressed, we appreciate that the IASB acknowledged in the October 2022 Agenda Paper that sufficient evidence is not yet available on the effects of the IFRS 9 requirements on insurance entities and how these requirements might impact insurers’ investment decisions as most insurers have deferred their IFRS 9 implementation until 1 January 2023. We understand and appreciate that the IASB remains open to reconsider their decision as new information and further evidence becomes available from insurers’ simultaneous application and interaction between IFRS 17 and IFRS 9 as of 1 January 2023.

Furthermore, we suggest that the standard should more explicitly state that the disclosures include the cumulative realised gain or loss on equity investments at FVOCI which are derecognised in the current reporting period. From our perspective this will provide the required clarity in the standard and will additionally reinforce the approach illustrated in the draft implementation guidance outlined in IG11A-B, which accompanies but is not part of IFRS 7.

We appreciate the clarification that the disclosures for equity instruments designated at FVOCI is at an aggregate level, which is in line with the current disclosures from reporting entities holding material balances of such instruments.

Question 6 - Disclosures—contractual terms that could change the timing or amount of contractual cash flows

Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C).

Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Response to the IASB

We do not agree with this proposal. We believe there would not be any significant potential benefits from such broad disclosures and they would be detrimental to the users of financial statements as the additional volume of limited value information would serve to diminish the impact of more critical note disclosures. Furthermore, any benefits would also be far outweighed by the associated costs for the preparers.

Particularly, we would question whether these additional disclosures would support the IASB's intentions expressed in its disclosure initiative to provide information that is useful to investors or whether they would rather obscure material information with irrelevant disclosures.

In this context we generally appreciate the perceived flexibility for each reporting entity to define the granularity of the disclosure of possible changes in contractual cash flows by defining the classes of financial assets that are relevant for them. However, we question the overall usefulness of the range disclosure, especially where ranges among instruments may be within wide limits. In our opinion, the benefits to the financial statement users must be balanced with the comparability, usefulness, and cost of introducing such disclosures.

Question 7 – Transition

Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response to the IASB

In general, we agree with the proposed transition amendments.

We would also like to understand if the IASB intends to finalise the proposed amendments in time for application to the FY2023 financial reporting period.