

**VPO notes from CFO Forum meeting with Andreas Barckow, IASB Chair.
12 September 2022**

Attendees:

Andreas Barckow (IASB)
Riana Wiesner (IASB)
Giulio Terzariol
Olav Jones
Roman Sauer
Sophie Massol
Danielle Atherton (VPO)

Andreas thanked Giulio and Olav for the joint letter that had been sent to the IASB. Andreas said the CFO Forum letter made an important observation which staff have subsequently also followed up with the Insurance Working Group at EFRAG. Andreas agreed that there had been a misunderstanding of the industry views, and this has been misrepresented by the staff in their papers. This had not been done intentionally to misrepresent views, but rather occurred through the staff's rephrasing.

Andreas noted that the core issue on recycling would mean that standard setting is required as IFRS 9 does not foresee recycling. If either the existing OCI approach should be amended, a new category created, or the current requirement re-written then all options would require a standard setting process with an Exposure Draft for public comment.

Andreas explained that staff had presented the feedback on the PIR and feedback from the user community given they have seen four rounds of IFRS 9 financial statements now. Feedback is a clear indication that users were neither confused nor have concerns that IFRS 9 did not give a true and faithful representation. The IASB has not been presented with a single study that shows there are shortcomings of IFRS 9. On this basis nothing has given the IASB a reason to start standing setting activities following the PIR.

Andreas said that he is aware that the insurance industry has not yet adopted IFRS 9 and they are a significant user of financial instruments, however, the banking sector were included and there is no significant feedback that there are impacts on the cost of capital / capital markets for banks. He is also aware of the economic conditions that have been in place during this time with low interest rates, but this has not been seen to cause an issue.

The IASB had an initial vote on recycling but only 1 board member had voted in support for recycling, and he subsequently changed his position in light of other board member positions. As a result, there was a unanimous view of the Board on recycling.

Giulio asked whether the IASB is therefore confirming that the CFO Forum is the only party to raise concerns to the IASB on recycling? Andreas commented that this was correct, there had not been an industry or jurisdictional push on this matter, only isolated voices. Giulio asked whether the IASB would reconsider in future should such evidence be provided to them. Andreas responded that accounting is a convention but must be evidence based, to the extent the IASB is presented with evidence that a convention does not work then the IASB would look into this, but at this point such evidence has not been presented.

Giulio raised that with FVTPL treatment for equities ultimately there becomes a point where investors are not looking at net income due to the impacts on and volatility in net income. Preparers are not presenting the net income number in their headlines results due to the volatility and therefore it does not get a focus. Giulio asked whether this was a concern for the IASB. Andreas' response was that it would be a concern for them as it is a headline figure which is being fully disregarded. He noted the IASB's project on primary financial statements which is to give more rigour to the presentation of the primary statement. One notion that will be brought with the new standard would be for companies to bring management performance measures into reporting which can seek to accommodate both IFRS and management views of performance.

Olav raised that as the insurance industry has not yet adopted IFRS 9, it is a challenge for them to provide evidence and substantiate the position on recycling. In addition, banks have a different objective for investing

in equities compared to the insurance industry which is looking for dividend yield and long-term growth meaning the evidence for the banks is not relevant to insurers.

Olav raised that EFRAG is also considering the recycling issue, he asked what impact this could have on the IASB's considerations and timing? Andreas responded that the re-introduction of recycling cannot be done without a new impairment model, and both must be done together. The old model in IAS 39 was deemed unworkable by the FASB and IASB which was seen through the financial crisis and sovereign crisis. He is aware that EFRAG is considering this, however, the latest information is EFRAG is not yet at a stage where they could present a complete model to the IASB. The IASB have heard people want the results of the PIR sooner rather than later and wish to know what are the urgent issues which required action. The IASB has not been presented with the evidence and therefore the Board has an impetus to move forward with the PIR. The IASB would stand ready to consider if evidence was subsequently presented. Olav noted that the industry is working with EFRAG on the revised impairment model.

Sophie asked whether the scope point on FVOCI equity without recycling will be discussed in the October meeting of the IASB Board. Andreas said they would not repeat the previous discussion from pre-summer but will raise the views of the CFO Forum privately with the Board. Riana explained that they will talk about the current scope of the existing OCI presentation option in October, but the staff are not recommending any changes to the existing option in IFRS 9.

Giulio said that as an industry this subject will remain a focus of the CFO Forum and we will continue to pursue the rationale for OCI recycling, but he understands what the IASB has said about their position. He is concerned that insurers will have to adjust for the impacts caused by the current option but then the focus moves away from net income. He commented that he appreciated the conversation and dialogue, and the CFO Forum and Insurance Europe looks to continue to have an open dialogue with the IASB. Olav agreed that it would be useful to have dialogues with the IASB on projects. Andreas agreed that it is important for dialogue and to please keep in touch and regular touchpoints would also be appreciated, staying in contact, and keeping up conversations.