To: International Accounting Standards Board (IASB)
Attn: Dr Andreas Barckow
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United Kingdom
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Subject: Insurance Europe and European Insurance CFO Forum joint submission to IFRS 9 Post Implementation Review Request for Information

14 January 2022

Dear Dr Barckow

This letter is from 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 Request for Information ("RFI") as part of the Post Implementation Review ("PIR") of IFRS 9 Financial Instruments – Classification and Measurement. In most situations, we believe that classification and measurement requirements under IFRS 9 achieve the IASB Board's intended objectives.

However, **we continue to strongly support the need for recycling for equities measured at fair value through other comprehensive income ("FVOCI")** to help ensure that profit and loss correctly reflects financial performance for all long-term investors. For entities that apply FVOCI, allowing recycling of realised gains or losses to profit or loss would remove the existing accounting disadvantage for long-term equity investments and further bring IFRS 9 in line with the Conceptual Framework.

The prohibition of recycling creates the false impression that cumulative gains and losses at the time of disposal of equity instruments are neither relevant nor economically significant, and therefore not a part of financial performance. In fact, yields from capital gains have been larger historically than dividends and are therefore more relevant. They are also a fundamental reason for investing in equities and such long-term investments are a key element of the insurance business model.

To address previous concerns raised about impairments of equity instruments under IAS 39, **we propose that a <u>well-defined</u>, robust <u>reversible</u> impairment model is introduced to accompany recycling for FVOCI equities** which would provide clear indicators for impairment. This can be achieved by defining rebuttable default calibrations such as a specific percentage decline in fair value from the acquisition cost or a specific time period over which the fair value has been below the acquisition cost to trigger an impairment. These thresholds would ensure a consistent application in practice.

Furthermore, under IAS 39, investments in redeemable or puttable instruments (including investment funds) are usually classified as Available for Sale (AFS), with recognition of changes in fair value in OCI. Under IFRS 9, those investments have to be measured at Fair Value through Profit and Loss ("FVPL"). This significant change in accounting treatment creates accounting volatility in the income statement. To be consistent with an insurer's long-term investment perspective and provide a true and fair view of financial performance, investments in in redeemable or puttable instruments (including investment funds) should therefore be eligible for measurement at FVOCI under IFRS 9 when a substantial part of the underlying instruments are equity securities or debt instruments that pass the SPPI test. In addition, from the holder's perspective, puttable instruments like private equity structures (typically used for real economy investments, e.g. infrastructure) should be eligible for FVOCI under IFRS 9.

Our detailed responses to the specific questions to the RFI and our proposal for a robust impairment model are included in the Annex. If you would like any further information on any of these matters or wish to discuss them further with us, we would be pleased to assist.

Yours sincerely,

Olav Jones
Deputy Director General
Director Economics and Finance, Insurance Europe

Delfin Rueda
Chair
European Insurance CFO Forum

Annex: Detailed responses to the specific RFI questions and our proposal for a robust impairment model

The following are the joint responses to the IFRS 9 Post Implementation Review Questions from the European Insurance CFO Forum ("CFO Forum") and Insurance Europe.

PIR Questions	Joint Response from the CFO Forum and Insurance Europe
Question 1: Classification & measurement Do the classification and measurement requirements in IFRS 9: (a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not? (b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not?	We consider that the combination of the SPPI requirements together with the assessment of an entity's business model generally provide an appropriate basis for the classification and measurement of financial assets in most situations. Nevertheless, there are areas for improvement, such as financial instruments with Environmental, Social and Governance ("ESG") features which are described in detail in our response to Question 3. Although this is currently not a major issue for insurers, we consider that given the expected growth on green bonds investments, a solution should be found to avoid volatility in profit or loss caused by the SPPI requirements not being met by these types of bonds.
Question 2: Business Model (a) Is the business model assessment working as the Board intended? Why or why not? (b) Can the business model assessment be applied consistently? Why or why not? (c) Are there any unexpected effects arising from the business model assessment? How significant are these effects?	We consider that the business models defined in IFRS 9 provide relevant information to the users of financial statements on the purpose of holding financial instruments. We welcome, in particular, the inclusion of the business model "Hold to Collect and Sell" which is very relevant for insurers and is expected to be widely used within the insurance industry.
Question 3: Contractual cash flow characteristics (a) Is the cash flow characteristics assessment working as the Board intended? Why or why not? (b) Can the cash flow characteristics assessment be applied consistently? Why or why not? (c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?	• We consider that the SPPI requirements generally provide useful information for debt instruments, except in the following cases: • Under IAS 39, investments through redeemable or puttable instruments (including investment funds) are usually classified as Available for Sale (AFS), with recognition of changes in fair value in OCI. Under IFRS 9, those investments must be accounted for at FVPL since these would normally not meet the "solely payments of principal and interest" (SPPI) criteria. This significant change in accounting treatment creates accounting volatility in the statement of profit and loss. Therefore, to be consistent with its long-term investment perspective and provide a true and fair view of financial performance, we believe that when a substantial part of the underlying debt instruments held by a fund pass the SPPI test, the investment should be eligible to the FVOCI option under IFRS 9 (we have a similar position – developed in our response to question 4 - for investments in investment funds that substantially hold equity securities). Also, from the holder's perspective, puttable investments in private equity structures (typically used for real economy instruments, e.g. in infrastructure) should be eligible for the FVOCI option under IFRS 9. • In addition, a solution should be found for specific new financial instruments such as some financial instruments with ESG features where the current SPPI conditions are not met. While noting that this kind of instruments are currently not very material in amounts in relation to the total amount of insurers' investments, insurers are expected to invest more widely in these types of bonds in the near future. Further standard setting that would allow the use of FVOCI for these instruments is supported.

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<tr><th>PIR Questions</th><th>Joint Response from the CFO Forum and Insurance Europe</th></tr>
<tr><td>Question 4—Equity instruments and other comprehensive income
(a) Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not?
(b) For what equity instruments do entities elect to present fair value changes in OCI?
(c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects?</td><td>The reintroduction of recycling for equities measured at Fair Value through Other Comprehensive Income (FVOCI) is our top priority and should be treated expeditiously by the IASB through an amendment to IFRS 9.

Under IFRS 9, when fixed income instruments (e.g. bonds) classified as FVOCI are sold, the gains or losses realised are recognised in the income statement. However, unlike FVOCI bonds, IFRS 9 requires that when FVOCI equity instruments are sold, their gains or losses are not recognised in the income statement. Recognising gains or losses in the income statement when the instrument is sold (“recycling of realised gains/losses”) should be available for equity instruments as the lack of recycling on equity instruments results in a misrepresentation of the Income statement and does not achieve the principles of quality and usefulness of the IFRS financial statements of insurers and creates an accounting disadvantage for equity investments which need to either be measured at FVPL or at FVOCI without recycling.

We strongly support the reintroduction of the recycling of FVOCI gains and losses in the P&L on equity investments when realised. Entities that apply the FVOCI measurement model, including many insurers, have recurring significant amounts of realised gains and losses, and not reflecting these in profit or loss would significantly affect these entities’ financial results. Allowing for recycling of realised gains and losses of equities measured at FVOCI is therefore crucial because:
The prohibition of recycling results does not reflect an entity’s business model and fails to convey information about management performance and stewardship. Insurers typically invest in equity securities on a long-term basis. Thus, a measurement at FVPL is not always relevant as it does not always reflect the long-term nature of equity investments. Due to the prohibition of recycling, gains or losses on disposal of FVOCI equity instruments are not reported in profit and loss (in contrast to IAS 39). As a result, the general principle to show in a transparent way all realised gains and losses in the profit and loss account has been left out under IFRS 9. This creates the false impression that these gains and losses at the time of disposal are not relevant or economically insignificant, and therefore not a part of the financial performance. In fact, capital gains on average have been larger than dividends and are fundamental to insurer’s rationale of investing in equities.
Insurers have a significant potential appetite for greater equity investing and the economic need for equity investment is explicitly formulated by states’ governments. It is important therefore to remove any barriers or accounting disadvantage that could reduce or restraint insurers equity investments.
The Conceptual Framework acknowledges that amounts should be recognised in profit or loss when it results in more relevant information. Therefore, gains and losses should be presented in profit or loss when realised as the profit or loss is the primary statement of performance under the Conceptual Framework for Financial Reporting.
We fully acknowledge that the IASB considers a robust impairment model to be the precondition for recycling. To address previous concerns raised about impairments of equity instruments under IAS 39, we propose that a well-defined, robust reversible impairment model is introduced to accompany recycling for FVOCI equities which would provide clear indicators of a potential impairment. This could be done by defining a specific percentage decline from the acquisition cost and a specific time period over which the fair value has been below the acquisition cost. We propose a rebuttable presumption that an impairment exists when either of the following criteria are met:
Significant - an equity instrument’s fair value is more than 25% below its acquisition cost; OR
Prolonged - an equity instrument’s fair value is below its acquisition costs value for more than 6 months.</td></tr>
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PIR Questions	Joint Response from the CFO Forum and Insurance Europe
	Introducing such a robust impairment model for FVOCI equity instruments, based on rebuttable quantitative impairment triggers to be applied consistently by all IFRS preparers, would improve the quality and comparability of IFRS financial statements and would also provide useful information to the users of financial statements which currently does not exist for FVOCI equity instruments. As valuations can change, reversals of impairments should also be allowed. The concept of 'once impaired always impaired' would not correctly reflect the economic reality of recovery in fair market values. We also disagree that the recycling of gains and losses creates earnings management opportunities. In fact, when such recycling is accompanied with robust impairment with thresholds, they prevent from not reflecting losses in the statement of profit and loss. Finally, we consider that the inclusion of rebuttable thresholds is a balanced approach consistent with the principles-based approach used in IFRS standards, whilst ensuring a consistent application in practice. In addition, further to our position developed in question 3 on the treatment of investments in investment funds which substantially hold debt instruments that pass the SPPI test, we believe that similar fact patterns should be treated similarly. Therefore, non-consolidated investments in redeemable or puttable investment funds holding equity securities and responding to movements in market variables in a similar way to equity instruments should also be eligible to FVOCI with recycling. The same rationale applies to accounting for private equity structures. The puttable instruments exception which allows the related investments to be treated as equity by issuers under IAS 32 should also apply on the investor's side under IFRS 9, which would allow an investor in private equity structures to use FVOCI for these typically long-term investments. Indeed, in case no changes are proposed in the accounting treatment of equity instruments, we expect the attractiveness of these types of investments to decrease significantly. Therefore, we ask the IASB to consider this detrimental accounting treatment for directly and indirectly held investments in equity instruments to allow insurance companies to continue to invest in this asset category from a long-term investment perspective and in the context of a well-diversified asset portfolio.

PIR Questions	Joint Response from the CFO Forum and Insurance Europe
Question 5— Financial liabilities and own credit (a) Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not? (b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)?	We generally welcome the change introduced in IFRS 9 allowing preparers to present the effects of own credit risk in OCI. No other significant issues noted at this time. However, the implementation of IFRS 9 and IFRS 17 is still ongoing for many insurers and other issues may arise in due course. Any such issues should be considered by the IASB as they arise.
Question 6— Modifications to contractual cash flows (a) Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not? (b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not?	We consider that no further standard setting is required on this part
Question 7—Amortised cost and the effective interest method (a) Is the effective interest method working as the Board intended? Why or why not? (b) Can the effective interest method be applied consistently? Why or why not?	We consider that the existing requirements in IFRS 9 are appropriate and that no further standard setting is required on this part
Question 8—Transition (a) Did the transition requirements work as the Board intended? Why or why not? (b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not?	We welcome the recent amendments made to IFRS 17 introducing the classification overlay approach for the combined transition to IFRS 9 and IFRS 17.
Question 9—Other matters (a) Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement requirements in IFRS 9? If yes, what are those matters and why should they be examined? Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant. (b) Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?	No other significant issues noted at this time. However, the implementation of IFRS 9 and IFRS 17 is still ongoing for many insurers and other issues may arise in due course. Any such issues should be considered by the IASB as they arise.