INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

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Transmitted electronically

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: IFRS Standards Exposure Draft: *General Presentation and Disclosures (Primary Financial Statements)*

Dear Mr Hoogervorst:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the International Accounting Standard Board (IASB) Exposure Draft *General Presentation and Disclosures (Primary Financial Statements).*

The IAIS mission 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. As insurers are both significant users of financial statements through their investment activities and reporters, the IAIS has a keen interest in this project. Additionally, although the changes will not have a direct regulatory impact in many jurisdictions, the proposals may lead to greater consistency and transparency which could aid Supervisors in assessing insurers.

The IAIS is supportive of the objective of the IASB's Primary Financial Statement Exposure Draft (ED) and believes that statements that are clear, consistent and contain key information are crucial for users to understand the performance of a firm. Overall, the IAIS is supportive of the proposals in the ED as they will provide better transparency and consistency of financial statements presentation and disclosures across industries. However, the IAIS has the following comments on the ED.

- **Unusual Income / Expenses:** There is the potential for the definition to lead to confusion given that issues that are not predictive of the future are not necessarily "unusual", and may occur in the near future. The IAIS recommends that the IASB consider using a term that better reflects what is captured by the requirements. The IASB should also consider providing further guidance as to how to identify items that are not predictive and to ensure that these are even-handed between income and expenses.

- **Management Performance Measures (MPM):** It would be helpful to clarify what is intended to be captured in the MPM definition. Also, it may not be clear to users why some performance measures (MPMs) are treated differently from others that are used by the firm. As such, the IASB should give more thought to whether and how to integrate MPMs with other forms of performance measures that are used by firms.
- **Policy Choice:** The IAIS has concerns that the policy choice in paragraph 51 of the ED may lead to inconsistency in reporting between similar firms. The IASB may want to reconsider the benefits of possible measures to improve consistency.
- **Diversified Groups:** The IAIS believes that more guidance may be necessary for diversified groups that have several distinct business areas that could be considered the main business. Given the significance of the classification, the IASB should consider providing definitions for a 'main business activity' and 'in the course of its main business activities', or providing additional clarifying guidance.
- **Terminology:** The ED uses the same terminology in different ways between the cashflow statement and the income statement. The ED notes that this reflects different purposes for the two statements; however, this could lead to confusion for users.

We have provided more detailed comments to specific questions in Annex 1.

If you have further questions regarding this letter, please contact Jay Muska at the IAIS Secretariat (tel: +41 61 280 8953; email: jay.muska@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,

Victoria Saporta
Chair, Executive Committee

Gary Anderson
Policy Development Committee

Annex I

Question 1—operating profit or loss
Paragraph 60(a) of the Exposure Draft proposes that all entities present in the statement of profit or loss a subtotal for operating profit or loss.

Paragraph BC53 of the Basis for Conclusions describes the Board's reasons for this proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

We are supportive of the categories to be included in the Statement of profit or loss as it is consistent with the disclosures included in IFRS 17 *Insurance Contracts* Standard. We note that once IFRS 17 (Insurance contracts) is implemented, both the insurance service result and insurance finance result would be included within the operating category. As such, the benefit of identifying operating profit may be more limited than for other firms.

Although we are supportive, the IAIS believes that the use of similar terminology with different definitions between the Statement of Profit or Loss and the Statement of Cash flows has the potential to be confusing for users of the financial statements. We understand the board has deliberately defined the investing categories between the two statements with different objectives; however, it may be helpful for the IASB to consider ways to avoid or more clearly address this overlap in terminology.

Question 2—the operating category
Paragraph 46 of the Exposure Draft proposes that entities classify in the operating category all income and expenses not classified in the other categories, such as the investing category or the financing category.

Paragraphs BC54–BC57 of the Basis for Conclusions describe the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what alternative approach would you suggest and why?

No Comment.

Question 3—the operating category: income and expenses from investments made in the course of an entity's main business activities
Paragraph 48 of the Exposure Draft proposes that an entity classifies in the operating category income and expenses from investments made in the course of the entity's main business activities.
Paragraphs BC58–BC61 of the Basis for Conclusions describe the Board's reasons for this proposal.
Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

The IAIS agrees that an entity should classify income and expenses from investments in the operating category where the investments are made in the course of its main business activities. For insurers, investment income is typically an integral component of the business model and where this is the case, this should be reported as part of operating profit.

However, the IAIS believes that more clarity needs to be provided, including for situations where an entity may have more than one main business activity. In the ED, 'Main business activity' and, 'in the course of its main business activities' do not appear to be clearly defined leaving this an area of significant judgement. Given the importance of these definitions on the structure of the statement of profit or loss (e.g. in relation to the option currently permitted by paragraph 51 of the ED), greater clarity as to how to identify such activities may be necessary.

In particular, as highlighted in BC60 of the Basis for Conclusion, the judgement as to where income and expenses relating to investments arose 'in the course of main business activities' is made at a significantly more granular level than the single decision a firm takes on whether provision of financing to customers is a main business activity. We therefore recommend that the IASB considers whether further guidance is necessary to ensure that 'in the course of main business activities' can be interpreted consistently.

Question 4—the operating category: an entity that provides financing to customers as a main business activity

Paragraph 51 of the Exposure Draft proposes that an entity that provides financing to customers as a main business activity classify in the operating category either:

• income and expenses from financing activities, and from cash and cash equivalents, that relate to the provision of financing to customers; or

• all income and expenses from financing activities and all income and expenses from cash and cash equivalents.

Paragraphs BC62–BC69 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

The IAIS is supportive of the proposal that where entities provide financing to customers as part of their main business activities, it is classified as part of operating activities. However, we are concerned with the policy choice that is offered in paragraph 51 in relation to income and expenses from financing activities and the treatment of cash and cash equivalents since it may reduce comparability. The choice could result in individual insurance entities or financial services groups that provide financing as a main business activity presenting their income statement differently than other similar organisations.

If the board is unable to identify alternative ways to remove the optionality, the IASB may wish to reconsider the benefits of requiring firms to separate finance provided to customers as a main business activity and other financing unless impracticable. This would have the advantage of providing a default approach and ensure that where available, information is used to make this split. Failing to do so could result in a reduction in the comparability between firms, undermining a key objective of the wider proposals.

Separately, the treatment of derivatives as summarised in paragraph B40 of the exposure draft suggests a relatively complex approach to classification. The IASB should set out more clearly why such an approach is viewed as appropriate and consider the implications of this in more detail for different types of entities, including for insurers.

Question 5—the investing category

Paragraphs 47–48 of the Exposure Draft propose that an entity classifies in the investing category income and expenses (including related incremental expenses) from assets that generate a return individually and largely independently of other resources held by the entity, unless they are investments made in the course of the entity's main business activities.

Paragraphs BC48–BC52 of the Basis for Conclusions describe the Board's reasons for the proposal.

Do you agree with the proposal? Why or why not? If not, what alternative approach would you suggest and why?

No Comment.

Question 6—profit or loss before financing and income tax and the financing category

(a) Paragraphs 60(c) and 64 of the Exposure Draft propose that all entities, except for some specified entities (see paragraph 64 of the Exposure Draft), present a profit or loss before financing and income tax subtotal in the statement of profit or loss.

(b) Paragraph 49 of the Exposure Draft proposes which income and expenses an entity classifies in the financing category.

Paragraphs BC33–BC45 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

No Comment.

Question 7—integral and non-integral associates and joint ventures

(a) The proposed new paragraphs 20A–20D of IFRS 12 would define 'integral associates and joint ventures' and 'non-integral associates and joint ventures'; and require an entity to identify them.

(b) Paragraph 60(b) of the Exposure Draft proposes to require that an entity present in the statement of profit or loss a subtotal for operating profit or loss and income and expenses from integral associates and joint ventures.

(c) Paragraphs 53, 75(a) and 82(g)–82(h) of the Exposure Draft, the proposed new paragraph 38A of IAS 7 and the proposed new paragraph 20E of IFRS 12 would require an entity to provide information about integral associates and joint ventures separately from non-integral associates and joint ventures.

Paragraphs BC77–BC89 and BC205–BC213 of the Basis for Conclusions describe the Board's reasons for these proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

The IAIS is supportive of the proposal to identify integral associates and joint ventures as well as those that are not integral. The IAIS also supports the proposal that the results of integral associates and joint ventures would be included in a separate sub-total and that an entity would be required to provide information separately about integral and non-integral associates and joint ventures.

However, the IAIS does have some concerns that the definition for an integral associate or joint venture may not be not sufficiently clear, and could result in unintended consequences. The proposed definition in para 20D of IFRS 12 is based on a "…significant interdependency…" with a number of examples as to circumstances where this may be the case. These examples include a.) integrated lines of business b.) sharing a name or brand and c.) a supplier or customer relationship.

The use of common branding as an indication of an interdependency could raise the prospect of firms switching between integral to non-integral based on management decision to rename operations based on performance. It is unlikely that a situation where profits are "integral" and losses are "non-integral" would be helpful for users of the accounts.

Question 8—roles of the primary financial statements and the notes, aggregation and disaggregation

(a) Paragraphs 20–21 of the Exposure Draft set out the proposed description of the roles of the primary financial statements and the notes.

(b) Paragraphs 25–28 and B5–B15 of the Exposure Draft set out proposals for principles and general requirements on the aggregation and disaggregation of information.

Paragraphs BC19–BC27 of the Basis for Conclusions describe the Board's reasons for these proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

The IAIS is supportive of these proposals and believes that these requirements should lead to a more consistent approach to aggregation and disaggregation, and greater detailed information for the users of financial statements in many cases.

Question 9—analysis of operating expenses

Paragraphs 68 and B45 of the Exposure Draft propose requirements and application guidance to help an entity to decide whether to present its operating expenses using the nature of expense method or the function of expense method of analysis. Paragraph 72 of the Exposure Draft proposes requiring an entity that provides an analysis of its operating expenses by function in the statement of profit or loss to provide an analysis using the nature of expense method in the notes.

Paragraphs BC109–BC114 of the Basis for Conclusions describe the Board's reasons for the proposals.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

The IAIS is supportive of the proposals that entities should present an analysis of expenses based on either the function or nature depending whether on which approach provides the most useful information for users of the financial statements. The IAIS also supports the proposed requirement that entities using the function of expense method also disclose an analysis of its total operating expenses using the nature of expense method. This approach appears to be a reasonable balance between user needs, complexity and practicality.

Question 10—unusual income and expenses
(a) Paragraph 100 of the Exposure Draft introduces a definition of 'unusual income and expenses'.

(b) Paragraph 101 of the Exposure Draft proposes to require all entities to disclose unusual income and expenses in a single note.

(c) Paragraphs B67–B75 of the Exposure Draft propose application guidance to help an entity to identify its unusual income and expenses.

(d) Paragraphs 101(a)–101(d) of the Exposure Draft propose what information should be disclosed relating to unusual income and expenses.

Paragraphs BC122–BC144 of the Basis for Conclusions describe the Board's reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

The IAIS is supportive of the objective of identifying items that have limited predictive value and generally supportive of the proposals. We expect that this information is likely to be useful for users of the financial statements as long as the basis for distinguishing between items is understood, the disclosures are adequate and there are suitable safeguards to ensure that similar approaches are taken by all firms, and for all items of profit and loss. However, there are several areas where further clarity in the guidance would enhance the information for users:

- The proposal requires an entity to disclose unusual income and expenses in the notes if and only if they have limited predictive value. It further adds the key requirements for classifying income/expenses as unusual, if it is reasonable to expect that income/expenses similar in type and amount will not arise in future periods. Despite the existing application guidance, the definition may allow entities too much discretion to include items as unusual. This may especially be the case if it is not clear what the relevant ‘unit of account’ is for considering unusual items (eg litigation, provisions or litigation, fines and penalties, etc). If unusual items are identified at different levels of granularity then that may affect the items that are identified as unusual.

We understand that entities will have to use judgment (as noted in BC124), but we encourage the IASB to further tighten the requirements to limit the level of management discretion. The extent to which the identification of unusual items is consistent will have a significant bearing on the success of the proposals.

- The proposal is intended to be neutral in application to both income and expenses, however there may be a potential bias towards entities disclosing unusual expenses and not unusual income. We would encourage the IASB to provide further clarification in the requirements (and/or through examples provided) to limit management bias.

- To make sure that the information is understood, the IASB should reconsider whether “unusual items” is the best description of such items given that “unusual income and expenses” may not have been a common feature of prior periods. Unusual is not the same thing as non-recurring or of limited predictive value and this may lead to confusion in the context of presenting performance.

Question 11—management performance measures

(a) Paragraph 103 of the Exposure Draft proposes a definition of ‘management performance measures’.

(b) Paragraph 106 of the Exposure Draft proposes requiring an entity to disclose in a single note information about its management performance measures.

(c) Paragraphs 106(a)–106(d) of the Exposure Draft propose what information an entity would be required to disclose about its management performance measures.

Paragraphs BC145–BC180 of the Basis for Conclusions describe the Board’s reasons for the proposals and discuss approaches that were considered but rejected by the Board.

Do you agree that information about management performance measures as defined by the Board should be included in the financial statements? Why or why not?

Do you agree with the proposed disclosure requirements for management performance measures? Why or why not? If not, what alternative disclosures would you suggest and why?

The IAIS is supportive of defining and disclosing Management Performance Measures (MPMs) in the notes to address current user concerns of lack of discipline and transparency around these measures. However, the proposals need further thought and the IAIS has the following concerns:

- The MPMs are currently defined as subtotals of income and expenses, which are a sub-set of a broader list of performance measures used by management. The IAIS believes that further clarification on the definition of MPMs being “complement totals or subtotals specified by IFRS Standards” is necessary, as the proposed definition may allow Insurers to adjust non-IFRS measures which may mislead financial statements users (eg operating profit excluding the impact of Covid-19).

- Related to the above, the IASB should also be clearer about what it is looking to capture as an MPM. For example, MPMs are defined in a way that appear to exclude ratios involving non-profit and loss items, which is confusing because ratios like return-on-capital employed are common performance measures used by management. Furthermore, the proposals should be clearer about the implications of introducing non-IFRS related adjustments into performance measures. For example, it is not clear how the proposed requirement in 105(a) that MPMs shall "faithfully represent" aspects of the financial performance on the entity is designed to be applied and interpreted. More specifically, where measures that are used by firms require the use of significant judgement (eg MPMs that include numbers that are several year averages, earnings before interest depreciation tax and Covid-19), then it may not be clear whether these would faithfully represent performance and what the implications of this would be for the MPM disclosure.

- The IASB should give more thought as to whether and how to integrate MPMs with other existing performance measures. MPMs are a subset of the performance measures that are used by management and requirements already exist in many jurisdictions in relation to this broader set (e.g. Alternative Performance Measures – APMs). Users of financial statements may find it unclear or confusing to have a subset of performance measures (i.e. MPMs) which are treated differently to others (e.g. ratios and other performance metrics). In addition, the proposed requirements could lead to over or under confidence in performance measures that are not classified as MPMs, depending on users' understanding of MPMs and the perceived value of a measure being designated as such.

Question 12—EBITDA

Paragraphs BC172–BC173 of the Basis for Conclusions explain why the Board has not proposed requirements relating to EBITDA.

Do you agree? Why or why not? If not, what alternative approach would you suggest and why?

No Comment.

Question 13—statement of cash flows

(a) The proposed amendment to paragraph 18(b) of IAS 7 would require operating profit or loss to be the starting point for the indirect method of reporting cash flows from operating activities.

(b) The proposed new paragraphs 33A and 34A–34D of IAS 7 would specify the classification of interest and dividend cash flows.

Paragraphs BC185–BC208 of the Basis for Conclusions describe the Board's reasons for the proposals and discusses approaches that were considered but rejected by the Board.

Do you agree with the proposals? Why or why not? If not, what alternative approach would you suggest and why?

No comment.

Question 14—other comments
Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

No Comment.