Ref: 23/31
27 September 2023

Submitted via the IFRS website

Dr Andreas Barckow
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

IAIS' response to request for information: International Accounting Standards Board Post Implementation Review of IFRS 9 *Financial Instruments* – Impairment

Dear Dr Barckow:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Accounting Standards Board (IASB) request for information on the Post Implementation Review (PIR) of IFRS 9 *Financial Instruments* (IFRS 9) – Impairment, issued in May 2023.

As the IASB assesses its PIR of IFRS 9 – Impairment, it may wish to consider the following points:

Impairment requirements in IFRS 9 (Question 1)

The IAIS supports the objective of IFRS 9, which introduces a forward-looking expected credit loss model to enable a timelier recognition of credit losses than when applying IAS 39 (the previous accounting standard), thereby addressing the delayed recognition of credit losses.

It should be noted that implementation of IFRS 9 became effective on 1 January 2023 for the insurance industry, along with IFRS 17 *Insurance Contracts* (IFRS 17). For this reason, many insurers applying IFRS for financial reporting purposes have not yet reported financial results based on IFRS 9 requirements. With more insurers reporting financial information based on IFRS 9 during the fiscal year 2023, supervisors will be able to better assess the effectiveness of impairment requirements under IFRS 9.

General approach to recognising expected credit losses (Question 2)

a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

The IAIS supports the IFRS 9 impairment model that distinguishes between the impact of initial estimates of expected credit losses (ECL) and the subsequent changes in those credit losses. This provides useful insight on changes in credit risk and the resulting related losses. The IAIS has no fundamental comments (fatal flaws) on the general approach of IFRS 9, which recognises lifetime ECL for a financial instrument if there has been a significant increase in its credit risk. Although insurers as an industry have made limited use to date of IFRS 9 as preparers, they have benefited from the use of IFRS 9 in their capacity as investors and users of the financial statements.

b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

The insurance industry has undergone significant implementation challenges for both IFRS 17 and IFRS 9, as these standards are, or can be, costly to implement and require significant investment in new systems, processes and people.

The costs associated with applying IFRS 9 – Impairment to insurers' own financial statements depend, in part, on the classification of assets held (for example, the extent to which assets are held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss).

The classification of financial instruments (and therefore the significance of IFRS 9 – Impairment) may change with the implementation of IFRS 17, given the potential (and in some cases, the requirement) for entities to reclassify financial instruments.

Although the IAIS supports the IFRS 9 impairment model as an improvement from the incurred loss approach used by IAS 39, it is challenging to assess with confidence the costs/benefits, given insurers' limited experience to date. The interaction between IFRS 17 and other standards, including IFRS 9, could be considered as part of a post implementation review of IFRS 17.

Determining significant increase in credit risk (Question 3)

The IAIS notes that although there are no fatal flaws to highlight, it is not clear that the IFRS 9 standard provides sufficient information on what the IASB means by a "significant increase" in credit risk, which may lead to diversity in practice. Further application guidance and examples would be useful.

Measuring expected credit losses (Question 4)

a) **Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?**

As per IFRS 9.5.5.17, an entity shall measure ECL in a way that reflects unbiased and probability-weighted amounts and the time value of money. This information should be reasonable, supportable and available without undue cost or effort. The IAIS has no fundamental questions on the requirements for measuring ECL as they achieve the IASB's objective of providing financial statement users with useful information on the amount, timing and uncertainty of an entity's future cashflows.

b) **Can the measurement requirements be applied consistently? Why or why not?**

The IAIS believes that the majority of the IFRS 9 measurement requirements, as reflected in IFRS 9. 5.5.17 to IFRS 9.5.5.20, are appropriate. However, additional guidance is needed on the use of management overlays, as current disclosure requirements make comparison across the industry difficult. The IAIS would also welcome additional guidance on what is considered a "significant increase in credit risk", given the importance of this judgement and the divergence of views amongst entities.

The COVID-19 pandemic environment was not a typical "test environment" for the effectiveness of IFRS 9. In this case, the measurement of ECLs was impacted by government and central bank interventions. For this reason, it remains difficult to assess the effectiveness of the new standard in a challenging credit environment.

Simplified approach for trade receivables, contract assets and lease receivables (Question 5)

The IAIS notes that although there are no fatal flaws to highlight on the simplified approach for trade receivable, contract assets and lease receivables, we encourage the IASB to respond in a timely manner to issues raised in the IASB staff paper on premiums receivable from an intermediary (IFRS 17 and IFRS 9) to ensure that there is consistency of application within the insurance industry.

Transition (Question 8)

The IAIS supports the transition requirements included in IFRS 9, including transition relief (such as: applying practical expedients and rebuttable presumptions, recognising lifetime ECLs until derecognition, as well as not requiring presenting restated comparative information). The IAIS finds the transition requirements practical and is of the opinion that they have contributed to reduce implementation costs of IFRS 9.

Credit Risk Disclosures (Question 9)

Based on insurers' limited experience using IFRS 9 and IFRS 9's impairment requirements, the IAIS does not have fundamental questions on disclosure requirements for credit risk in IFRS 7 *(Financial Instruments Disclosures*). It is apparent, however, that IFRS 9 impairment disclosures may be used by some insurers in a slightly different way than what is typical for other industries. For example, to the extent that assets are accounted for as FVOCI rather than amortised cost, the measurement of ECL would affect how changes in fair value are recognised between the income statement and other comprehensive income. In such cases, other information (relating to fair value) would also be relevant for users. Regardless of the classification approach used, it is clear that IFRS 9 – Impairment disclosure requirements remain important for insurers, both as preparers and users of financial statements. As noted above, with disclosure requirements, the impact and treatment of overlays/post-model adjustments should be enhanced, to facilitate the comparison of management overlays across the industry.

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).

Victoria Saporta
Chair, Executive Committee

Matt Walker
Chair, Policy Development Committee

About the IAIS

The IAIS is a global standard-setting body whose objectives are to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions. Learn more at www.iaisweb.org.