



IAIS

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: Discussion Paper: *Financial Instruments with Characteristics of Equity* ("FICE")

Dear Mr. Hoogervorst:

The International Association of Insurance Supervisors ("IAIS") welcomes the opportunity to comment on the International Accounting Standard Board ("IASB")'s Discussion Paper entitled *Financial Instruments with Characteristics of Equity* ("the DP").

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. This includes developing and assisting in the implementation of principles and standards, and as such, the IAIS has a keen interest in the IASB's work on the classification of financial instruments with characteristics of equity. The IAIS believes it is important to explore how to improve the current standard on the presentation of financial instruments, as inconsistencies in application of the standard exist today. The IAIS is appreciative and supportive of the efforts of the IASB in this area. In particular, the IAIS believes that providing a conceptual basis to the distinction between debt and equity is an improvement and should lead to consistent application and less diversity in the future. As such, we believe the work project is important even if the project only results in minimal changes to existing guidance.

The IAIS supports the IASB's desire to define equity consistently with the *Conceptual Framework* ("CF"), and believes the overall model is more coherent and conceptually sound than IAS 32. The IAIS agrees that a single binary distinction cannot provide all relevant information about complex financial instruments, and agrees that additional consideration needs to be given to presentation and disclosure.

Although the IAIS is supportive of the DP, our response focuses on the areas of concern where we would welcome further clarification and/or strengthening of the proposals:

- The DP does not yet provide a full conceptual underpinning, which the IAIS considers to be an important deliverable for the project. In particular, the IAIS believes that any approach developed by the IASB should have a strong link to the CF and a clear alignment or rationale for differences with other standards. These issues are discussed further below.

In addition, further clarification of the preferred approach (including the “timing” and “amount” features) would also help to ensure a firm basis for understanding the resulting definition of liabilities or equity. For example, the preferred approach classifies some financial instruments that are independent of the entity’s available economic resources as liabilities even if the potential settlement of those instruments will only be required in the event of a liquidation. The IAIS believes this treatment may be counter-intuitive to users who prepare financial statements on a going concern basis and we would welcome further underlying rationale and guidance from the IASB in this regard.

- The IAIS is concerned with the use of terminology that may not be well understood, as this may lead to the same issues of inconsistency in application that exist today. The preferred approach introduces new terminology (e.g. “amount independent of the entity’s available economic resources”) which is not well defined. As such, guidance on how the IASB envisions the application of an amount that is independent of an entity’s available economic resources is welcome, particularly in instances that involve an entity’s own equity instruments.
- A strong link to the CF would help to achieve the IASB’s objective of improved and consistent financial reporting. The DP states that differences between the definition of a liability in the CF and IAS 32 have resulted in inconsistencies in how IFRS Standards distinguish liabilities from equity (DP para 1.8). With this in mind, further clarification would be welcome as to how the determination of a liability under the preferred approach relates to the features of a liability in the CF. It is important that the reasoning for the Other Comprehensive Income and recycling treatment proposed in the discussion paper is consistent with the CF.

The IAIS notes that the IASB has said that it will look at the CF; after progressing with the Financial Instruments with Characteristics of Equity (FICE) project, and so changes might be expected. However, potential changes could be significant and may impact other standards. It would seem that prior to proceeding on the project, the IASB would propose changes to the CF or acknowledge exceptions specific to FICE prior to moving to the exposure draft stage. Two specific examples where there appear to be inconsistencies between the DP and the CF are:

- The CF states that probability impacts whether a liability is recognised (CF paragraph 4.38). On the other hand, the discussion of the impact of probability within the DP is very limited. In our view, the discussion in the DP is not sufficient to ensure consistency and we feel that the IASB could provide greater clarity on whether probability should factor into the recognition and measurement of a liability, or whether the scope of the discussion in the DP pertains only to definition.
- The proposed framework would classify the settlement of a fixed monetary amount in own shares as a liability. However, an obligation to issue an entity’s own shares would not meet the definition of liability as set out in the CF (i.e. a present obligation to transfer an economic resource as a result of past events).

- There are differences in the approach taken for the DP and other accounting standards such as IFRS 17 where the rationale is not clearly justified or explained. For example, the preferred approach in the DP would see liabilities defined in terms of rights and obligations established by contractual terms but not by law or regulation (similar to IAS 32 and IFRS 9 – DP paragraph 8.36). By contrast, IFRS 17 liabilities are based on substantive rights and obligations whether they arise from a contract, law or regulation (IFRS 17 para 2). Although the DP recognises the challenges relating to different treatments in different accounting standards it may be worthwhile for the IASB to consider how liabilities are defined in different IFRSs to be sure that any differences are justified and appropriate.

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,



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