ISDA

International Accounting Standards Board
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Delivered by email

25 September 2019

Dear Board Members,

Ref.: Amendments to IFRS 17, ED/2019/4

The International Swaps and Derivatives Association ("ISDA")[1] is pleased to provide input on the above referenced Exposure Draft ('ED') recently issued by the International Accounting Standards Board ("IASB").

ISDA is most active in representing the interests of its members as they relate to accounting issues associated with derivatives and other banking activities, which are dealt with by IFRS 9 *Financial instruments*. IFRS 17 *Insurance contracts* will profoundly affect the accounting by the insurance industry but will have much less direct impact on our members. For this reason, it would not be appropriate for ISDA to respond to all the questions raised in the ED. However, two discrete issues are relevant to our members, and arise from the proposed amendments to IFRS 9 included in Appendix D of the ED, which we describe below.

1. <u>Application to Financial Guarantee Contracts (FGC)</u>

The proposal in Appendix D to amend the scope of IFRS 9, paragraph 2.1 (e) (iii) includes a new first sentence, with the effect of including within the scope of IFRS 9 "insurance contracts that meet the definition of a financial guarantee contract". This wording could be understood to have the effect of scoping into IFRS 9 all purchased financial guarantee contracts (FGCs).

If this were the case, a purchased FGC would presumably fail the SPPI test and as a result be mandatorily accounted for at Fair Value through Profit and Loss. We do not believe the IASB intended to change the accounting for purchased FGCs in this way. The wording could be improved by following that used for determining the scope of IAS 32, in paragraph 4(d) i and the current wording of IFRS 9 2.1 (e)(iii), which refer only to FGCs issued.

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 71 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter @ISDA.

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2. Application to credit cards and similar contracts

Appendix D of the ED includes a proposal to amend the scope of IFRS 9 to exclude credit card contracts an entity issues that meet the definition of an insurance contract. Our members are concerned that as drafted the reference to credit cards is too narrow. Charge cards, overdrafts, debit cards and some other types of loan may not be considered credit cards but also contain a similar insurance features which aim to provide an element of consumer protection insurance. This particular scope exclusion should therefore be widened to allow these types of contracts which contain an element of consumer protection insurance, to be excluded from the scope of IFRS 17. We believe other accounting standards, such as IAS 37, are adequate to deal with the risks inherent in such products.

The scope exclusion should however be drafted in order to be future proof. For example, another feature which could potentially meet this description relates to protection afforded to customers from falling victim to what is known as authorised push payment (APP) fraud. A new product feature may in future be attached to credit cards, charge cards, overdrafts, debit cards and other loans and accounts, in response to the need to protect customers from increasingly sophisticated frauds, which can be extremely difficult for customers to detect and avoid. To help ensure these types of features are accounted for appropriately, the scope exclusion should be wide enough that they would not fall under IFRS 17. Suggested wording in the scope exclusion section should therefore reference to "similar products that include an insurance feature which aims to provide consumer protection."

A related point which our members noted, is that application of the SPPI guidance is now well established and understood, with the result that existing products such as credit cards or similar contracts are accounted for appropriately under IFRS 9, with the insurance component, if present, accounted for under other standards. We believe this approach would continue to be applied.

We look forward to further supporting the IASB as its work progresses in this area. If it would be helpful, we would be happy to discuss in further detail the points raised above.

Yours sincerely,

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