

**CONSULTATION PAPER ON PROPOSED  
IFSCA (PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS OF  
IIOs) REGULATIONS, 2022**

**Objective:**

The objective of this consultation paper is to seek comments / views/ suggestions from public on the proposed International Financial Services Authority (Preparation & Presentation of Financial Statements of IIOs) Regulations, 2022.

**Background:**

1. The International Financial Services Centres Authority (IFSCA) is the unified regulator for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centres (IFSCs) in India.
2. To facilitate the growth of insurance & reinsurance sector and to provide best in class regulatory framework, which is at par with top international jurisdictions, IFSCA has already issued relevant regulations. In order to further strengthen the regulatory framework and to promote ease of doing business so far as Preparation & Presentation of Financial Statements of IIOs is concerned, IFSCA is proposing to notify comprehensive regulations. These regulations focus on broad principles on aspects of preparation & presentation of financial results in line with international best practices.
3. The proposed IFSCA (Preparation & Presentation of Financial Statements of IIOs) Regulations, 2022 *inter alia*, include the following:
  - (i) These Regulations shall be applicable for all Insurance contracts entered into by the IIOs
  - (ii) For IIOs who is set up in an unincorporated form in an IFSC, financial statements shall be in accordance with the accounting standards applicable to its parent entity, as specified by its home country regulatory or supervisory authority. For others, i.e. those incorporated in the IFSC shall prepare it as specified in these Regulations
  - (iii) The Regulations have three Schedules based on business category
    - a. Schedule A for IIOs carrying on Life insurance business or composite business comprising both Life, General or Health Insurance business

- b. Schedule B for IIOs carrying on General Insurance business or Health Insurance business or composite of General and Health Insurance business or Reinsurance
  - c. Additionally, Schedule C, for IIOs in an incorporated form in the IFSC
- (iv) General Accounting Principles for Preparation of Financial Statements with respect to premium, acquisition costs, claims cost, actuarial valuation,
  - (v) Principles for determining value of investments, especially in categories like Real Estate Investment Property, Debt securities, Listed and Unlisted equity securities, Loans etc.
  - (vi) The Financial statements as specified in these regulations shall be prepared for each accounting year and it shall also include comparative information in respect of the preceding year.
4. The draft regulations are placed on the website of the IFSCA at <https://ifsca.gov.in/PublicConsultation>. General public and stakeholders are requested to forward their comments / suggestions through e-mail to Insurance Dept. at [insurance-dept@ifsca.gov.in](mailto:insurance-dept@ifsca.gov.in) with copy to Mrs. Riddhi Bhandari at [riddhi.bhandari@ifsca.gov.in](mailto:riddhi.bhandari@ifsca.gov.in) and Nitin Gupta at [g.nitin@ifsca.gov.in](mailto:g.nitin@ifsca.gov.in) by 12<sup>th</sup> December, 2022 in the attached format. It is further requested to provide comments in MS Word or MS Excel format only.

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# INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

## NOTIFICATION

Gandhinagar, the \_\_\_/\_\_\_, 2022

### **DRAFT - International Financial Services Centres Authority (Preparation and Presentation of Financial Statements of International Financial Service Centre Insurance Offices) Regulations, 2022**

F. No. IFSCA/2022-23/GN/REG026. -In exercise of the powers conferred by Section 28 read with Sections 12 and 13 of the International Financial Services Centres Authority Act, 2019, and clause (i) of sub-section (2) of Section 114A read with Section 27 of the Insurance Act, 1938, read with Gazette notification number S.O. 3035(E) dated 04<sup>th</sup> July, 2022 issued by the Department of Financial Services, Ministry of Finance, Government of India, the International Financial Services Centres Authority hereby makes the following regulations namely:-

## CHAPTER – I

### **1. Short title and commencement -**

- (1) These regulations may be called the International Financial Services Centres Authority (Preparation and Presentation of Financial Statements of International Financial Service Centre Insurance Offices) Regulations, 2022.
- (2) They shall come into force on the date of their publication in the Official Gazette.

### **2. Applicability**

The provisions under these regulations shall be applicable to International Financial Service Centre Insurance Offices (IIOs) registered with the Authority under International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021.

### **3. Objective -**

These regulations aim to put in place the process of Preparation of Financial Statements of the International Financial Service Centre Insurance Offices (IIO).

### **4. Definitions –**

- (1) In these regulations, unless the context otherwise requires -
  - (i) **'Act'** means the International Financial Services Centres Authority Act, 2019 (50 of 2019);
  - (ii) **'accounting year'** -
    - (i) for IIO in an unincorporated form shall mean the financial year followed by its parent entity;

- (ii) for the IIO incorporated in IFSC - shall refer to a period of 12 months commencing from 1<sup>st</sup> April and ending on the 31<sup>st</sup> March;
- (iii) **'Authority'** means the International Financial Services Centres Authority established under sub-section (1) of Section 4 of the Act;
- (iv) **'insurance contract'** means a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'.
- (v) **'IRDAI'** means The Insurance Regulatory and Development Authority of India constituted under the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);
- (vi) **'International Financial Services Centre'** shall have the same meaning as assigned to it under section clause (g) of sub-section (1) of section 3 of the Act;
- (vii) **'International Financial Service Centre Insurance Office'** shall have the same meaning as assigned to it under clause (k) of sub-regulation (1) of regulation 3 of the IFSCA (Registration of Insurance Business) Regulations, 2021;
- (viii) **'Parent Entity'** shall have the same meaning as assigned to it under clause (q) of sub-regulation (1) of regulation 3 of the International Financial Services Centres Authority (Registration of Insurance Business) Regulations, 2021;
- (2) Words and expressions used and not defined in these regulations but defined in the Act or Acts mentioned in the First Schedule to the Act or any rules, regulations made thereunder, shall have the same meaning respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

## CHAPTER – II

### General instructions for preparation & presentation of Financial Statements

#### 5. Applicable 'Accounting Standard' or "AS"

- (1) IIOs who is set up in an unincorporated form shall prepare and present its financial statements in accordance with the accounting standards applicable to its Parent Entity.
- (2) IIOs who is set up in an incorporated form shall prepare and present its financial statements in accordance with the accounting standards issued by the Institute of Chartered Accountants of India (ICAI), except that:

- (i) Cash Flow Statements shall be prepared only under the Direct Method as provided under Accounting Standard 3 (AS 3);
- (ii) Segment Reporting shall be prepared in accordance with Accounting Standard 17 (AS 17), irrespective of the requirements regarding listing and turnover mentioned therein;
- (iii) the Accounting for Investments shall be done in accordance with Accounting Standard 13 (AS 13) by IIOs engaged in life insurance business;

*Provided that* the Authority may specify the transition to IFRS or any other standard, as and when it deems fit.

6. IIOs engaged in life insurance business or composite of life, general and health Insurance business, shall adhere to the accounting principles standard and disclosure or other requirements, as specified under **Schedule A**.
7. IIOs engaged in general insurance business, health insurance business, composite of general and health insurance business or reinsurance business, shall adhere to the accounting principles standard and disclosure or other requirements, as specified under **Schedule B**.
8. In addition, to complying with the provisions of Schedule A or Schedule B, as applicable, the IIOs incorporated in IFSC shall also comply with the provisions of **Schedule C** hereunder.
9. An IIO shall clearly disclose the Accounting Standards which have been followed in the preparation and presentation of the financial statements.
10. The financial statements prepared and presented by IIOs shall, inter-alia, include a detailed statement of the accounting policies applied for each area of the financial statements
11. An IIO shall disclose the change in accounting standard or any of the accounting policies adopted during the year and its head-wise financial impact on the financial statements.
12. The financial statements prepared by IIOs shall also include comparative information in respect of the preceding accounting year. The formats for presentation of financial statements shall be as specified by the Authority from time to time.
13. Any contract not falling under the above definition of insurance contract shall be reported and disclosed separately.
14. Any financial reporting by an IIO to the Authority shall be in USD, unless otherwise specified by the Authority.
15. The IIO incorporated in IFSC shall provide the Authority with the following:

- (1) The Annual Report of the IIO containing the following:
  - (i) Board of Directors Report;
  - (ii) Management Discussion and Analysis (MD&A) Report;
  - (iii) Risk Management Report;
  - (iv) Corporate Governance Report;
  - (v) Audited financial statements with corresponding Notes to Accounts;
  - (vi) Certified External Auditor Report; and
  - (vii) Certified Actuarial Report (Independent or otherwise).
- (2) The Annual Report shall be submitted within ninety (90) days from the end of the financial year.

### **CHAPTER – III**

#### **Maintenance of Books of Accounts, Records and Documents**

16. The IIO shall maintain and preserve the following books of accounts, records and other documents in electronic retrieval form for a minimum period of twenty years, namely: -
  - (1) a balance sheet as at the end of each accounting year;
  - (2) a profit and loss account for each accounting year, which shall be maintained on accrual basis;
  - (3) revenue account;
  - (4) a statement of cash/fund flow (direct method); and
  - (5) such other books of accounts, records and documents related to its business activities, as may be specified by the Authority from time to time.
17. An IIO shall keep separate accounts relating to funds of shareholders and policyholders; as applicable.
18. All the books of accounts, statements, document, contract notes etc., shall be maintained at IIO and shall be available for inspection to the persons authorized by the Authority.
19. All the books of accounts, documents, statements, contract notes etc., referred to in these Regulations shall be retained by the IIO for a period of at least seven years from the end of the year to which they relate.

*Provided that* such documents, where claims are reported and the decision is pending for a decision from courts, shall be maintained till the disposal of the cases;

*Provided further that* in the case of reinsurance business, all other documents are required to be maintained till its validity;

*Provided* also that unless otherwise required in any other laws for the time being in force, all such books of account, documents, statements, contract notes etc. may be maintained in non-editable electronic retrieval form.

20. The IIO shall make disclosures of all related party transactions in its audited financial statements.
21. The IIO shall maintain the records including those held in electronic mode, pertaining to all the policies issued and all claims made from within the IFSC, from other SEZs or from DTA, shall be held in data centers located and maintained in India.

*Provided that* the records including those held in electronic mode for insurance business booked from outside India, the IIO shall make it available for inspection to the persons authorized by the Authority.

#### **CHAPTER - IV Miscellaneous**

**22. Power to specify procedure, etc.:**

For the purpose of implementation, facilitation and regulation of preparation and presentation of financial statements by IIOs and matters incidental thereto, the Authority may specify norms, procedures, processes and manners for compliance by IIOs.

**23. Power to remove difficulties and relax strict enforcement of the regulations:**

(1) In order to remove any difficulty in the application or interpretations of the provisions of these regulations, the Authority may issue clarifications through guidance notes or circulars.

(2) On an application, received along with the specified non-refundable processing fees, the Authority, may for the reasons to be recorded in writing, relax the strict enforcement of any of the provisions of these regulations.

**24. Inspection, Investigation, Information and disclosure:**

The Authority shall have the power to inspect or investigate the affairs of the IIO including calling for any information from the IIO or the parent entity or specify the disclosures to be made, so far as it relates to its activities as an IIO.

**25. Repeals and saving:**

- (1) On and from the commencement of these regulations, IRDA (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations, 2002 and guidelines/circulars issued thereunder, shall cease to apply in International Financial Services Centres.

- (2) On and from the commencement of these regulations, Chapter – 4 of International Financial Services Centres Authority (Operations of International Financial Services Centres Insurance Offices) Guidelines, 2021, shall stand omitted.
- (3) Notwithstanding anything in sub-regulation (1), any action taken or purported to have been taken under the regulations, guidelines, circulars mentioned in sub-regulation (1) before the commencement of these regulations shall be deemed to have been taken under the corresponding provisions of these regulations;
- (4) An IIO operating in the IFSC prior to the commencement of these regulations, shall comply with additional requirements stipulated in these regulations, within a period of six (6) months from the date of commencement of these regulations or within such extended time as may be specified by the Authority.

INJETI SRINIVAS, Chairperson  
[ADVT. xxx/x/Exty./xxx/2021]

**SCHEDULE A**  
**(Refer Regulation 6)**  
**PART I**

**Accounting Principles for Preparation of Financial Statements**

1. IIOs shall adhere to the following general accounting principles while preparing financial statements:

(1) **Premium:** Premium shall be recognised as income when due. For linked business, the due date for payment may be taken as the date when the associated units are created.

(2) **Acquisition costs:** Acquisition costs, if any, directly attributable to the policy shall be expensed over the contract period or period of risk on the policy. The unexpired portion of the policy shall be deferred and recognised as Deferred Acquisition costs and expensed in subsequent periods.

*Explanation:* Acquisition costs are the costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. The most essential test is the obligatory relationship between costs and the execution of insurance contracts (i.e. commencement of risk)

(3) **Claims Cost:** The ultimate cost of claims shall comprise of the policy benefit amount and specific claims settlement costs, wherever applicable.

(4) **Actuarial Valuation - Liability for Life Policies:**

(i) The estimation of liability against life policies shall be determined by the appointed actuary of the IIO pursuant to the annual assessment of the life insurance business. Actuarial assumptions shall be disclosed by way of notes to the accounts.

(ii) The liability shall be so calculated that together with future premium payments and investment income, the IIO can meet all future claims (including bonus entitlements to policyholders) and expenses.

(iii) Additionally, the IIO shall maintain adequate assets to discharge all its liabilities

**PART II**

**Disclosures forming part of Financial Statements**

2. **Linked Business:** A separate set of financial statements, for each segregated fund of the linked businesses, shall be annexed.

*Explanation:* Segregated funds represent funds maintained in accounts to meet specific investment objectives of policyholders who bear the investment risk. Investment income/ gains and losses generally accrue directly to the policyholders. The assets of each account are segregated and are not subject to claims that arise out of any other business of the IIO.

3. **Funds for Future Appropriation:** The funds for future appropriation shall be presented separately.

*Explanation:* The funds for future appropriation represent all funds, the allocation of which, either to the policyholders or to the shareholders, has not been determined by the end of the financial year.

4. The following shall be disclosed by way of notes to the Balance Sheet:

- (1) Contingent Liabilities:

- (i) Partly-paid up investments;
- (ii) Underwriting commitments outstanding;
- (iii) Claims, other than those under policies, not acknowledged as debts;
- (iv) Guarantees given by or on behalf of the IIO;
- (v) Statutory demands/liabilities in dispute, not provided for;
- (vi) Reinsurance obligations; and
- (vii) Others, as may be specified

- (2) Actuarial assumptions for valuation of liabilities for life policies in force.

- (3) Encumbrances created over the assets of the IIO.

- (4) Commitments made and outstanding for Loans, Investments and Fixed Assets.

- (5) Basis of amortisation of debt securities.

- (6) Claims settled and remaining outstanding for a period of more than six months on the balance sheet date.

- (7) Value of contracts in relation to investments, for:

- (i) Purchases where deliveries are pending;
- (ii) Sales where payments are overdue.

- (8) Historical costs of those investments valued on fair value basis.
  - (9) Basis of revaluation of assets acquired out of investment.
5. The following information shall also be disclosed:
- (1) Investments made in accordance with any statutory requirement shall be disclosed separately together with its amount, nature, security and any special rights;
  - (2) Segregation into performing/ non-performing investments for purpose of income recognition as per the directions, if any, issued by the Authority;
  - (3) Percentage of business sector-wise and geography-wise;
  - (4) A summary of financial statements for the last five years, in the manner as may be specified by the Authority;
  - (5) Bases of allocation of investments and income thereon between Policyholders' Account and Shareholders' Account;
  - (6) Accounting Ratios as may be specified by the Authority.
6. In addition to the disclosures specified in this Schedule, notes to accounts shall also provide, where required,
- (1) narrative descriptions or disaggregation's of items recognized in the Financial Statements;
  - (2) information about items that do not qualify for recognition in Financial Statements.

**SCHEDULE B**  
**(Refer Regulation 7)**  
**PART I**

**Accounting Principles for Preparation & Presentation of Financial Statements**

1. Notwithstanding anything contained in the applicable Accounting Standards as specified in Reg. 5, IIOs shall adhere to the following general accounting principles while preparing Financial Statements:
2. **Segmental Reporting**  
IIO engaged in general insurance business shall prepare a detailed breakup of the insurance service results for the following business segments:
  - (1) Fire
  - (2) Marine Cargo and Marine (Other than Marine Cargo)
  - (3) Motor
  - (4) Health including Personal Accident
    - a. Health Retail
    - b. Health Group
    - c. Health Government Schemes
  - (5) Miscellaneous
    - a. Retail
    - b. Group/Corporate
  - (6) Any other segment which contributes more than 10 percent of the Miscellaneous class of business;
  - (7) Any other class as may be specified by the Authority
3. **Premium**
  - (1) Premium in respect of insurance contracts shall be recognized as income over the contract period or the period of risk, whichever is relevant.
  - (2) A reserve for unearned premium shall be created as the amount representing that part of the premium written which is attributable to, and to be allocated to the succeeding accounting periods.
4. **Premium Deficiency:** Premium deficiency shall be recognised if the sum of expected claim costs, related expenses and maintenance costs exceeds related unearned premiums.
5. **Acquisition Costs:** Acquisition costs, if any, directly attributable to the policy shall be expensed over the contract period or period of risk on the policy. The portion pertaining to the unexpired portion of the policy shall be deferred and

recognised as Deferred Acquisition costs and expensed in subsequent periods.

**6. Claims**

(i) The components of the ultimate cost of claims to an IIO comprise the claims under policies and claims settlement costs. Claims under policies comprise the claims made for losses incurred, and those estimated or anticipated under the policies.

(ii) A liability for outstanding claims shall be brought to account in respect of both direct business and inward reinsurance business. The liability shall include: -

a. Future payments in relation to unpaid reported claims;

b. Claims Incurred But Not Reported (IBNR) including inadequate reserves (sometimes referred to as Claims Incurred But Not Enough Reported (IBNER))

which will result in future cash/asset outgo for settling liabilities against those claims. Change in estimated liability represents the difference between the estimated liability for outstanding claims in respect of claims under policies whether due or intimated at the beginning and at the end of the financial period. The accounting estimate shall also include claims cost adjusted for estimated salvage value if there is sufficient degree of certainty of its realisation.

**7. Actuarial Valuation of claim liability – in some cases**

(i) Estimate of claims made in respect of contracts exceeding four years shall be recognised on an actuarial basis, subject to provisions of the concerned Accounting standard. In such cases, certificate from a recognised actuary as to the fairness of liability assessment must be obtained.

(ii) Actuarial assumptions shall be suitably disclosed by way of notes to the account.

**PART II**  
**Disclosures forming part of Financial Statements**

**8. Premium**

- (1) Unearned premium shall be shown separately under the head '*Current Liabilities*' and appropriate disclosures regarding management's basis of assessment shall be made in the financial statements.
- (2) Premium Received in Advance, which represents premium received prior to the commencement of the risk, shall be shown separately under the head '*Current Liabilities*' in the financial statements.
- (3) Premium shall be shown net of any tax (as applicable) collected from the policyholders.

**9. Additional disclosures forming part of Balance Sheet**

**10. Contingent Liabilities and Commitments (to the extent not provided for)**

- (1) Contingent Liabilities shall be classified as:
  - (1) Claims, other than those under policies, not acknowledged as debt
  - (2) Reinsurance obligations;
  - (3) Statutory demands/liabilities in dispute, not provided for;
  - (4) Other money for which the IIO is contingently liable.
- (2) Commitments shall be classified as:
  - (i) Estimated amount of contracts remaining to be executed on capital account and not provided for;
  - (ii) Uncalled liability on shares and other investments partly paid;
  - (iii) Other commitments (specify nature).

**11. Encumbrances over the assets of the IIO in and outside India.**

**12. Contracted amount in relation to investments for:**

- (1) Purchases where deliveries are pending;
- (2) Sales where payments are overdue.

**13. Extent of risk retained and reinsured in respect of insurance contracts.**

**14. Claims settled and remaining outstanding for a period of more than six months on the balance sheet date.**

**15. When the IIO applies an accounting policy retrospectively or makes a restatement of items in the financial statements or when it reclassifies items in its financial statements, the IIO shall attach to the Balance Sheet a restated "Balance Sheet" as at the beginning of the earliest comparative period with detailed schedules of the impacted areas.**

16. The minimum assigned capital for an IIO in terms of the Act, shall be presented as a separate component of equity under Statement of Changes in Equity. Any contribution in excess of the minimum assigned capital shall be classified in accordance with relevant Accounting Standards.
17. Actuarial assumptions in valuation of claims shall be presented in detail as part of the notes to the financial statements.
18. **Additional disclosures forming part of Notes to Statement of Profit & Loss**
  - (1) Computation of managerial remuneration;
  - (2) Extent of premium income recognised for general insurance business, based on varying risk pattern, category wise, with basis and justification therefor, including whether reliance has been placed on external evidence;
  - (3) Items of expense and income in excess of one percent of the total net premium shall be shown separately;
  - (4) Details of various penal actions taken by Regulatory Authorities on the IIO or its parent entity;
  - (5) Accounting Ratios as may be specified by the Authority.
19. In addition to the disclosures specified in this Schedule, notes to accounts shall also provide, where required,
  - (1) narrative descriptions or disaggregations of items recognized in the Financial Statements;
  - (2) information about items that do not qualify for recognition in Financial Statements.

## **SCHEDULE C**

### **(Refer Regulation 8)**

Notwithstanding anything contained in the applicable Accounting Standards as specified in Reg. 5, IIOs shall adhere to the following procedure to determine value of investments:

#### **1. Real Estate Investment Property:**

- (1) The value of investment property shall be determined at historical cost, subject to revaluation at least once in every three years. The change in the carrying amount of the investment property shall be taken to Revaluation Reserve. The basis for revaluation shall be disclosed in the notes to accounts.
- (2) The IIO shall assess at each balance sheet date whether any impairment of the investment property has occurred. An impairment loss shall be recognised as an expense in the Revenue/Profit and Loss Account immediately, unless the asset is carried at re-valued amount. Any impairment loss of a re-valued asset shall be treated as a revaluation decrease of that asset
- (3) Gains/ losses arising due to changes in the carrying amount of real estate shall be taken to equity under 'Revaluation Reserve. The 'Profit or Loss on sale of investments', as the case may be, shall, after adjusting include the accumulated changes in the carrying amount (previously recognised in equity under the heading 'Revaluation Reserve') in respect of that particular property and being recycled to the relevant Revenue Account or Profit and Loss Account on sale of that property.
- (4) The bases for revaluation shall be disclosed in the notes to accounts. The Authority may issue directions specifying the amount to be released from the revaluation reserve for declaring bonus to the policyholders. For the removal of doubt it is clarified that except for the amount that is released to policyholders as per the Authority's direction, no other amount shall be distributed to shareholders out of Revaluation Reserve Account.

#### **2. Debt Securities:**

- (1) Securities/bonds (both fixed and variable interest securities) must be valued at:
  - (i) In the case of listed securities/bonds, the closing quoted market price or the latest available quoted market price (whichever is lower);

- (ii) In the case of securities/bonds which are not transferable, the amount payable on surrender or redemption of such securities/bonds as at the date the security/bond is being valued; and
  - (iii) In any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.
- (2) Securities/bonds (both fixed and variable interest securities) not covered in above must be valued at:
- (i) In the case of listed securities/bonds, the closing quoted market price;
  - (ii) In the case of securities/bonds which are not transferable, the amount payable on surrender or redemption of such securities/bonds as at the date the security/bond is being valued; and
  - (iii) In any other case, the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment thereof.
- (3) While doing the valuation for securities/bonds at the relevant measurement date, provisions of appropriate accounting standards need to be applied.

**3. Listed Equity Securities and Derivative Instruments that are traded in active market:**

- (1) Listed equity securities and derivative instruments that are traded in active markets shall be measured at fair value on the balance sheet date.

*Explanation: For the purpose of calculation of fair value, the lowest of the last quoted closing price in the stock exchanges where the securities are listed shall be taken.*

- (2) The IIO shall assess on each balance sheet date as to whether any impairment of listed equity security (ies)/ derivative(s) instruments has occurred.
- (3) An active market shall mean a market, where the securities traded are homogenous, availability of willing buyers and willing sellers is normal and the prices are publicly available.
- (4) Unrealised gains/ losses arising due to changes in the fair value of listed equity shares and derivative instruments shall be taken to equity under the head 'Fair Value Change Account'. The 'Profit or Loss on sale of investments', as the case may be, shall include accumulated changes in the fair value previously recognised in equity under the heading 'Fair Value Change Account' in respect of a particular security and being

recycled to the relevant Revenue Account or Profit and Loss Account on actual sale of that listed security.

- (5) The Authority may issue directions specifying the amount to be released from the Fair Value Change Account for declaring bonus to the policyholders.

*Explanation:* it is clarified that except for the amount that is released to policyholders as specified by the Authority, no other amount shall be distributed to shareholders out of Fair Value Change Account. Also, any debit balance in Fair Value Change Account shall be reduced from profit/ free reserves while declaring dividends

- (6) The IIO shall assess, on each balance sheet date, whether any impairment has occurred. An impairment loss shall be recognised as an expense in Revenue/Profit and Loss Account to the extent of the difference between the re-measured fair value of the security/investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in Revenue/Profit and Loss Account. Any reversal of impairment loss, earlier recognised in Revenue/Profit and Loss Account shall be recognised in Revenue/Profit and Loss Account.

4. **Unlisted and other than actively traded Equity Securities and Derivative Instruments:** Unlisted equity securities and derivative instruments and listed equity securities and derivative instruments that are not regularly traded in active markets shall be measured at historical cost. Provision shall be made for diminution in value of such investments. The provision so made shall be reversed in subsequent periods if estimates based on external evidence show an increase in the value of the investment over its carrying amount. The increased carrying amount of the investment due to the reversal of the provision shall not exceed the historical cost.
5. **Loans:** Loans shall be measured at historical cost subject to impairment provisions. The IIO shall assess the quality of its loan assets and shall provide for impairment.
6. **Loans Secured by Insurance Policies Issued by the IIO:** Valuation of a loan secured by an insurance policy issued by the IIO must be as the amount of the loan but not exceeding the amount payable on a surrender/early termination of the policy as at the date the policy is being valued.
7. **Linked Business:** A separate set of financial statements, for each segregated fund of the linked businesses, shall be annexed.

*Explanation:* Segregated funds represent funds maintained in accounts to meet specific investment objectives of policyholders who bear the investment risk. Investment income/ gains and losses generally accrue directly to the policyholders.

The assets of each account are segregated and are not subject to claims that arise out of any other business of the IIO.

8. **Funds for Future Appropriation:** The funds for future appropriation shall be presented separately.

*Explanation:* The funds for future appropriation represent all funds, the allocation of which, either to the policyholders or to the shareholders, has not been determined by the end of the financial year.

9. **Other Assets:** Valuation of deposits and current account balances with approved financial institutions must be at their carrying value. The admissible value of these assets is their carrying value. The admissible value of any cash holding is carrying value. For investments, that are not specifically covered above, if the investment is due, or will become due, within twelve (12) months from the date at which the investment is being valued/measured, valuation should be based on the amount which can reasonably be expected to be recovered in respect of the investment, taking due account of any security held in respect thereof.

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**Format for providing comments / suggestions**

**Proposed International Financial Services Centres Authority (Preparation & Presentation of Financial Statements of IIOs) Regulations, 2022**

Inputs / Comments suggested by:

<b>Page No. of Draft Regu.</b>	<b>Reg. No.</b>	<b>Sub-Regu No. /Para No.</b>	<b>Comments / Suggestions / Suggested modifications</b>	<b>Rationale</b>