

Public Comments

The consultation paper seeking comments/views from public on the draft IFSCA (Preparation & Presentation of Financial Statements of IIOs) Regulations, 2022 was issued by IFSCA on 21.11.2022.

The following comments have been received:

Sr.	Page No.	Para No.	Comments	Rationale for Comments
1	4-5	5	<p>The term “Accounting Standard” is not defined in the draft Regulations. We recommend for the inclusion of such definition as under:</p> <p><i>Accounting standards means –</i></p> <p><i>(i) In respect of Indian Insurers/ Re-insurers, the applicable Accounting Standard or Indian Accounting Standard (Ind AS) notified by the Central Government under Section 133 of the Indian Companies Act, 2013, and regulations pertaining to Preparation of Financial Statements and Audit Report, as notified by the Authority, if any;</i></p> <p><i>(ii) In respect of Foreign Insurers / Re-insurers, and any risk bearing entity other than those specified under clause (i) above, the applicable home country accounting standards.</i></p>	-
2	9-10	Part II	<p>We recommend that a specific clause be incorporated to exempt the IIO not incorporated in IFSC, from the stated disclosure requirements. Insurers operating as branch office should be allowed to follow disclosure norms as applicable to its parent entity.</p>	<p>Various disclosure requirements are already stipulated by IRDAI under Preparation of Financial Statement and Auditors Report Regulation and its various master circular.</p> <p>The extant norms specified under the IFSCA’s draft regulations may be made applicable only to those Insurers who are incorporated in IFSC however for insurers operating as ‘branch office’ of an insurer incorporated and registered with IRDAI be allowed to continue the disclosure norms applicable to its parent</p>

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				entity (only summary branch financial be prepared if needed). This will reduce the compliance burden of an insurer and reduce duplication of disclosures.
3	2	5(1) & (2)	Request clarity from the Authority on preparation of financials and accounting policies.	<p>(i) Currently the financial statements are prepared as per Financial Year and not Calendar Year (as applicable to Parent Entity). With this regulation, Branch will have to prepare another set of Financials for the purpose of Income Tax filings, Audit for both Parent's Accounting policy-based financials and Audit for Indian standard based financials for the purpose of tax filings would be required. Also, the Income Tax (IT) Authorities would require compliance with Indian accounting standards for the purpose of IT filings – For e.g., Deferred Acquisition cost shall not be allowed by IT/ UPR methods of Parent shall be disallowed by IT Authorities/ IBNR Provisioning shall also be revisited for the purpose of Income Tax and mandatory filing for Retrocession and any Brokerage paid.</p> <p>(ii) We are of the view that from a tax filing perspective it cannot be anything other than the financial year. Also, we are not sure that an IIO should have two sets of accounts. While allowing for accounts to be prepared in accordance with home office accounting standard may be practical and attractive in the short term, this could lead to practical challenges in the computation and payment of taxes in GIFT City, once the tax holiday period ends.</p>
4	4	17	Request Authority to give clarification and define Shareholders and Policyholders Fund.	Currently, for the FRBs, IRDAI has provided a methodology to allocate Policyholder Fund and Shareholder Fund. As there is no global practice of this allocation in other jurisdiction, IIO's also to follow the same methodology that has been followed till date.
5	5	21	Request Authority to allow the FRBs to use Data replication and Data duplication mechanism.	Maintaining records locally in India could be a challenge due to existing practice of maintaining data in the global servers.

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6		5	We request the Authority to consider allowing adoption of International Financial Reporting Standards (IFRS) / Ind AS by incorporated IIO entities	We understand that adoption of IFRS / IND AS will provide investors with presentation of financials as per the latest Accounting standard framework and will enhance comparability across international entities.
7		5 2(iii)	We request the Authority to consider removing requirement of AS 13 for investments valuation	We note that AS 13 does not deal with investments of retirement benefit plans and life insurance enterprises. Hence, investments of IIOs may be accounted as per guidance given under these regulations.
8	Schedule A	Part I Clause 1	We submit that the Authority has allowed IIOs to defer its acquisition cost over the contract period or period of risk on the policy. However, the method of amortization is not prescribed. We request the Authority to consider prescribing treatment of recognition of income and expenses pertaining to policyholders on similar line. If not amortised, it may create mismatch between revenue and expenses in a given financial year.	We note that the accounting principle requires the companies to report the related expenses and revenues at the same time, so that the revenues and expenses are matched on the income statement for that particular period.
9	Schedule A	Para 4	We request the Authority to allow early adoption of IFRS 17 for liabilities valuation.	
10	Schedule C	Para 2	We request the Authority's guidance if the changes in the fair value of the debt securities shall be transferred to Fair Value Change Account or Profit/Loss Account. We further request the Authority to align the treatment with the prevailing IRDAI guidelines which prescribes that the debt securities be valued at amortised cost.	The IRDAI guidelines provide that debt securities held from non-linked funds as 'Held to maturity' be valued at historical cost subject to amortization.
11	Schedule C	Para 2(1)	<p>We request the Authority to consider allowing calculation of market value of debt securities (listed/unlisted) as per interest rates and yield curves observed at commonly quoted intervals</p> <p>Debt Securities shall be measured at amortized cost for controlled fund instead of quoted market price as prescribed in the regulation.</p>	<p>We note that the market price quoted in case of illiquid securities may not provide true picture about fair value of a security.</p> <p>- Debt Securities shall be measured at amortized cost In case Debt securities to be measured at market price then unrealised gains/ losses arising due to changes in the fair value of Debt securities shall be taken to equity under the head 'Fair Value Change Account' in order to avoid the volatility in the Income statement</p>

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12	Schedule C	Para 2(2)	We request the Authority's guidance if para 2(2) is applicable for 'Discounted securities not having any coupon'	We note that Para 2(1)(iii) includes residual category for any other securities, however, there is less clarity on the coverage of asset type/ class.
13	Schedule C	Para 4	We request the Authority to consider allowing valuation of derivatives as per 'Guidance note on accounting of derivatives contracts' issued by the Institute of Chartered Accountants of India.	We submit that valuing OTC fixed income derivatives such as Forward Rate Agreements (FRA) at market value provides better clarity of financial position. We further submit that OTC fixed income derivatives trades usually do not have any initial cost. Hence, historical cost of such transactions will be Nil. Additionally, the Regulations do not provide for any requirement of 'Hedge accounting' for such transactions. We note that ICAI guidance note covers aspects such as valuation and hedge accounting of derivatives and thus may be applied for valuation.
14	Schedule C	--	We request the Authority's guidance on valuation of mutual funds/venture capital funds and exchanges traded funds (ETF). Mutual funds/ venture capital funds may be valued at latest available NAV. ETFs may be valued in line with equity securities. Further, changes in the market value of such securities may be presented under 'Fair value change account'. On sale/redemption of such securities same may be recycled to Profit & Loss account.	We submit that these instruments are 'pass through' in nature. We thus request Authority's guidance on providing a separate accounting treatment which may provide better clarity.
15	Schedule C	Para 7	We request the Authority's guidance on the treatment of assets of segregated funds viz. Unit linked funds.	We note that the Regulations do not provide for valuation of assets of segregated funds viz. Unit linked funds. We thus request the Authority's guidance on the valuation of the assets of segregated funds viz. unit linked funds. We further request the Authority to consider allowing valuation to be done based on prevailing IRDAI guidelines.
16	Schedule C	Para 7	We request the Authority to consider allowing intimation of segregated funds' financial statements only to the respective policyholders or disclosure of the same on IIO's website.	We understand that all users may not be interested in separate set of financial statements for each segregated fund as part of review of IIO's financial statements. We thus request the Authority to consider allowing intimation of segregated funds' financial statements only to the respective policyholders digitally or by uploading on IIOs website.

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17	Sched ule C	Para 9	We understand that the approved financial institutions shall have the same meaning as prescribed in Clause 3(1)(c) of International Financial Services Centres Authority Act, 2019	We note that Approved financial institutions' as referred to in this para is not defined in the regulations and thus shall be referred to Clause 3(1)(c) of International Financial Services Centres Authority Act, 2019
18	Sched ule C	Para 9	We request the Authority's guidance on valuation treatment of investment assets which shall mature after 1 year.	We note that the Regulations do not provide for valuation treatment of investment assets which shall mature after 1 year.
19	7	25	<p>In the draft regulation it is mentioned that on and from the commencement of these regulations, IRDAI (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.</p> <p>Suggestion:-</p> <p>Point no. 3(ii) of background section of consultation paper states "<i>For IIOs which 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</i>". This implies, in context of Indian parent entity, that the accounting policy and regulation applicable to Indian parent entity will apply to IIO.</p> <p>Since Indian parent entity/ Head office (HO) follow's IRDAI regulation 2002 for accounting, we suggest that preparation and presentation of financial statement of unincorporated IIO should be in accordance with IRDAI regulations 2002 and other accounting standard applicable to parent entity/ HO</p>	The proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that " <i>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.</i> " In view of the same the Accounting events for unincorporated IIO branch at present are to be recorded as per the principles/policies of preparation of financials of the parent company.

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20	12	Schedule B – Part I 2	<p>In the draft regulation it is mentioned that IIO in general insurance business shall prepare a detailed breakup of the Insurance service results.</p> <p>Suggestion:-</p> <p>Indian parent entity/ Head office (HO) follow's IRDAI regulation 2002 wherein Insurance service results has not been defined. Further to our understanding the term 'insurance service results' has been defined in IND AS 117 which is yet to be notified. Therefore for preparing insurance service results as per IND AS 117, the preparation of IIO financials will have to follow IND AS 117/ IFRS 17 which will change drastically its financials in comparison to financials of HO. Further to accommodate this requirement detailed changes will have to be implemented in the IT system landscape. Hence it is suggested to introduce insurance service results for unincorporated IIO once it is applicable to parent entity/ HO.</p>	<p>Definition of insurance service results will give better clarity and understanding to prepare financial statements as per the regulation.</p> <p>Further as per Point no. 3(ii) of background section of consultation paper states "<i>For IIOs which 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</i>". Furthermore the proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that "<i>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.</i>"</p> <p>In view of the above regulations applicable to parent entity/ Head office (HO) should also be applicable to IIO. Further to report insurance service results as a part of IIO financials the company will also have to make changes in the preparations of the financials.</p>

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21	12	Schedule B-Part I 2	<p>In the draft regulation it is mentioned that “<i>IIO engaged in general insurance business shall prepare a detailed breakup of the insurance service results for the following business segments:</i></p> <p>(1) Fire, (2) Marine Cargo and Marine (Other than Marine Cargo), (3) Motor</p> <p>(4) Health including Personal Accident</p> <p>a. Health Retail, b. Health Group,</p> <p>c. Health Government Schemes</p> <p>(5) Miscellaneous</p> <p>a. Retail, b. Group/Corporate</p> <p>(6) Any other segment which contributes more than 10 percent of the Miscellaneous class of business;</p> <p>(7) Any other class as may be specified by the Authority detailed break up of business segments.”</p> <p>Suggestion:-</p> <p>Segmental reporting should be done as per accounting policy followed by HO for General insurance (GI) company. However the business segments mentioned in the draft regulation is different from the segments used presently by the GI company incorporated in India. Hence it is suggested that the unincorporated IIO should follow the Segmental reporting as reported by its parent entity/ HO. However the segmental reporting as per the draft regulation can be incorporated by way of disclosure in the notes to the accounts.</p>	<p>Point no. 3(ii) of background section of consultation paper states “<i>For IIOs which 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</i>”. Further the proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that “<i>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.</i>”</p> <p>In view of the above there has to be a uniformity in Accounting policy with respect to parent entity/ Head office (HO). Furthermore once IND AS 117 gets notified, the segments which are to be presented as a part of financials will be determined by the product cohorts defined for IndAS/IFRS compliant financials. Hence the segmental reporting should be as per the home country regulator for an unincorporated IIO.</p>

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22	12	Schedule B – Part I 3	<p>In draft regulation it is mentioned that <i>Premium in respect of insurance contracts shall be recognized as income over the contract period or the period of risk, whichever is relevant.</i></p> <p><i>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</i></p> <p>Suggestion:</p> <p>The parent entity/ HO following IRDAI regulation 2002 is required to calculate UPR and NEP for marine hull as 100% of the net written premium for the financial year. Hence there will be mismatch in computation of NEP of marine hull in between parent entity/ HO and IIO. It is suggested that unexpired premium reserve for unincorporated IIO should be as per the regulation governing its parent entity/ HO.</p>	<p>Point no. 3(ii) of background section of consultation paper states “<i>For IIOs which 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</i>”. Further the proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that “<i>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.</i>”</p> <p>In view of the above regulations applicable to parent entity/ Head office (HO) should also be applicable to IIO.</p>
23	12	Schedule B - Part I 5	<p>In draft regulation it is mentioned that the acquisition cost pertaining to the unexpired portion of the policy shall be deferred and recognised as Deferred Acquisition costs and expensed out in subsequent periods.</p> <p>Suggestion:-</p> <p>It is suggested that acquisition cost accounting should be done as per accounting regulation prescribed for and accounting policy followed by HO for General insurance (GI) company.</p>	<p>Point no. 3(ii) of background section of consultation paper states “<i>For IIOs which 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</i>”. Further The proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that “<i>IIOs who is set up in an unincorporated form shall prepare and present its financial statements</i></p>

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				<p><i>in accordance with the accounting standards applicable to its Parent Entity.”</i></p> <p>In view of the above regulations applicable to parent entity/ Head office (HO) should also be applicable to IIO.</p>
24	14	Schedule B Part I 15	<p>In the draft regulation it is mentioned that when IIO applies accounting policy retrospectively or makes restatement, reclassification in its financial statements the IIO shall attach to the balance sheet a restated Balance sheet as at the earliest comparative period.</p> <p>Suggestion:</p> <p>It is suggested that disclosure should be done as per the accounting standards applicable to the parent entity/ HO.</p>	<p>Point no. 3(ii) of background section of consultation paper states “For IIOs which 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” Further The proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that “<i>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.”</i></p> <p>In view of the above regulations applicable to parent entity/ Head office (HO) should also be applicable to IIO.</p>

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25	15	Schedule B Part II 16	<p>In draft regulation it is mentioned that the minimum assigned capital for an IIO 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</p> <p>Suggestion:-</p> <p>Parent entity/ Head office (HO) follow's IRDA regulation 2002 for formatting and reporting. Hence we suggest there should not be any other format for reporting.</p> <p>The suggested statement of changes in equity is mentioned in IND AS/ IFRS. Hence can be presented in IIO after IND AS is made applicable to insurance industry in India.</p>	<p>Point no. 3(ii) of background section of consultation paper states "For IIOs which 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". Further The proposed Regulation 5(1) under General instructions for preparation & presentation of Financial Statements of the states that "<i>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.</i>"</p> <p>In view of the above regulations applicable to parent entity/ Head office (HO) should also be applicable to IIO.</p>
26	15	Schedule B Part II 18(1)	<p>In the draft regulation it is mentioned to disclose computation of managerial remuneration.</p> <p>Suggestions:-</p> <p>Parent entity/ Head office (HO) follow's IRDAI regulation 2002 for reporting and discloses in Notes to Accounts. The draft regulation does not define what will be reported under managerial remuneration. Hence we suggest Managerial remuneration should defined for unincorporated IIO.</p>	<p>The draft regulation does not define what will be reported under managerial remuneration.</p>
27	15	Schedule B Part II 18(4)	<p>In the draft regulation it is mentioned to disclose details of various penal actions taken by Regulatory Authorities on the IIO or its parent entity.</p> <p>Suggestion:-</p>	<p>There may be instances where penal action pertaining to parent entity/ HO does not have any relation to activities/operations of IIO, hence inclusion of penal action pertaining to parent entity/ HO will result in</p>

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			Parent entity/ Head office (HO) discloses details of penal actions in its notes to accounts. Hence we suggest to include penal actions pertaining to unincorporated IIO only in notes to accounts.	excess disclosure which the reader of the information may find difficult to interpret.
28	6	17	<p>Point no 17 states that an IIO shall keep separate accounts relating to funds of shareholders and policyholders: as applicable.</p> <p>The industry has been seeking the Regulator to remove the need for this notional segregation for the last 2 decades in the case of general insurance business since the funds are fungible unlike life insurance business where this segregation is required.</p>	We therefore request the IFSCA to remove this requirement for General insurance and reinsurance business.
29	-	-	<p>In the draft regulation there is no mentioned of the format of financial statement and the period by when financial statement of the unincorporated IIO shall be submitted and what are the annexures to be incorporated as a part of financial statement submission.</p> <p>Suggestion</p> <p>It is suggested for unincorporated IIO's that the format of financial statements should be in the format in which Parent entity / HO submit its financial statement to its Regulator and the timelines for submission should be within ninety (90) days from the end of the financial year and the annexures to be submitted should be Balance Sheet, Profit & Loss Account, Revenue and Schedule to the financial statement along with accounting policy, Notes to Accounts and Cash flows.</p>	In lieu of any specific format and timeline the submission of financial statement may become open ended.

The above comments were considered suitably and the revised draft of the IFSCA (Preparation & Presentation of Financial Statements of IIOs) Regulations, 2022 was placed before the Authority in its meeting held on December 23, 2022.