EFRAG Secretariat: Galina Borisova,
Laura Abeni, Didrik Thrane-Nielsen

Amendments to Classification and Measurement of Financial Instruments – Due Process Steps
Issues Paper

Objective

1 To provide an update to EFRAG FR TEG on the latest developments in respect of the due process steps performed by the IASB on the project *Amendments to Classification and Measurement of Financial Instruments*.

Scope of the project

2 At its May 2022 meeting as a result of feedback on PIR IFRS 9 *Classification and Measurement,* the IASB decided to propose clarifying amendments to the requirements for assessing the contractual cash flow characteristics of financial assets. This should be a fast-track project aimed to respond to the respondents feedback on the accounting for the financial instruments with the ESG features.

3 The following amendments were originally proposed during the IASB September 2022 and October 2022 meetings:

(a) clarification of:

(i) the term ‘basic lending arrangement’ and how it applies to the assessment of whether a financial asset’s contractual cash flows are solely payments of principal and interest (SPPI);

(ii) how to apply the SPPI assessment to financial assets with contractual terms that change the timing or amount of contractual cash flows;

(iii) the term ‘non-recourse’ and factors to consider when performing the SPPI assessment on financial assets with non-recourse features; and

(iv) the scope of the requirements relating to contractually linked instruments (CLIs) and the nature of eligible instruments in the underlying pool.

(b) transition requirements for the clarifying amendments above; and

(c) additional disclosure requirements for financial instruments with contractual terms that could change the timing or amount of contractual cash flows.

4 To reduce the burden on the stakeholders, the IASB proposes to include in the scope of these Amendments:

(a) The proposed amendments to IFRS 7 for equity instruments to which the other comprehensive income (OCI) presentation option is applied which would require disclosure:

(i) at the end of the reporting period of the aggregated fair value of such equity investments; and

(ii) of changes in the fair value of such equity investments recognised in OCI during the period.

(b) The proposed amendments to derecognition requirements of IFRS 9 permitting an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met.

Comment period

5 The IASB staff proposes a comment period of 120 days which is a standard period for comment on the exposure draft ('ED').

6 The IASB notes that although this project started as an urgent response to the issues related to financial assets with ESG-linked features and was treated as a high priority according to PIR framework, the proposed amendments to the SPPI requirements are not specifically aimed at financial assets with ESG-linked features. They are principle-based and applicable to other features that could affect the timing and amount of contractual cash flows. They also cover other areas of the SPPI requirements.

7 Given the above, it is important to allow sufficient time for stakeholders to properly consider the effect of these proposed clarifications, to limit the risk of unintended consequences.

8 The proposed amendments to IFRS 7 for equity investments to with the OCI presentation option, will increase transparency of the amounts presented in OCI and are supplemental to the current disclosure requirements.

9 The proposed amendments relating to electronic cash transfers are being developed in response to questions about the potential outcomes of applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or financial liability via an electronic cash transfer system.

10 In the IASB staff's view, the matters to be covered in the upcoming ED do not justify a comment period shorter than 120 days as described in the Due Process Handbook.

Due process steps

11 The IASB staff have concluded that the required due process steps to begin the balloting process for the ED have been completed and requested the IASB to begin the balloting process.

IASB decision

12 At its November meeting all the 11 IASB members agreed with the IASB staff recommendations of publishing a single ED with a 120 days comment period.

13 During the discussions it was clarified that the publication of the ED is expected to be 'early' Q2; that the IASB could consider publishing the four amendments at different time and consequently with different effective dates and that all the proposed amendments will have the same transition requirements (modified retrospective approach) and a question could be added in this regard to the ED.

EFRAG working groups

14 EFRAG FIWG discussed this topic at its 22 November 2022 meeting and although appreciating the IASB reasoning, shared the EFRAG Secretariat concerns about

combining the four different topics in a single ED. Members stressed the importance of having the SPPI clarifications available as soon as possible, especially taking into account additional time needed for the endorsement in the EU.

15 Members suggested that if the IASB goes for a single ED, the amendments to SPPI requirements should be finalised first in order to be expeditiously endorsed by the EC.

16 EFRAG FIWG considered that a shorter comment period of 90 days should be sufficient, given close attention of the stakeholders to the issues discussed. Members also considered that if ED goes out in the beginning of the H1 and not in the end of Q1 with a shorter comment period, this timing should be acceptable.

17 Some members questioned the wording used by the IASB and considered that if these are clarifications, then they could be better dealt by IFRS IC. If these are amendments, then the question remains whether the current accounting treatment should be changed before they enter into force. The expectation is that it should not.

18 EFRAG IAWG discussed this topic at its 24 November 2022 meeting and did not provide any comments.

The EFRAG Secretariat analysis

19 The EFRAG Secretariat notes that the scope of the ED comprises now four main topics:

(a) Clarifications to the SPPI requirements;

(b) Clarifications to the CLI requirements;

(c) Additional disclosures in IFRS 7 for equity instruments to which FVOCI presentation option applies; and

(d) Narrow-scope standard setting for derecognition criteria in IFRS 9 to permit accounting policy choice.

20 The EFRAG Secretariat acknowledges the IASB goal to reduce the burden on stakeholders in commenting on the proposed amendments by combining them in one ED.

21 The EFRAG Secretariat notes that these amendments and clarifications are not interrelated, and their relative urgency is different. Thus the IASB proposal to publish the amendments at different times with different effective dates could address this issue.

22 The EFRAG Secretariat reiterates the importance of having a solution for the accounting for the financial instruments with the ESG features (which is covered by the proposed clarifications to the SPPI requirements) by the 2023 year-end for the European stakeholders. Under the current proposal with the ED expected to be published early Q2 2023 with a comment period of 120 days brings us to August 2023. We note that it will hardly be possible to complete the EU endorsement process by the end of 2023. The shorter comment period of 90 days would be appreciated and we think could be feasible given the close attention of stakeholders to this project.

23 However, given that these are clarifying amendments which do not change the existing requirements in IFRS 9, on balance the EFRAG Secretariat agrees with the IASB decision to combine the amendments in one ED with the 120 comment period.

Question for EFRAG FR TEG

24 Does EFRAG FR TEG agree with the IASB staff conclusion that all the due process steps have been completed and the IASB can begin the balloting process of the ED?