EFRAG

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This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

PIR IFRS 9 Impairment – Summary and analysis of the comment letters received

1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 01-03 (clean version) and agenda paper 01-04 (marked-up version).

Structure of the paper

2 This comment letter analysis contains:

(a) Summary of respondents;

(b) Summary of respondents' views;

(c) Main positions in EFRAG's proposed final comment letter;

(d) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat's recommendations and questions to EFRAG FR TEG; and

(e) Appendix 2 – list of respondents.

Summary of respondents

3 At the time of writing, four comment letters have been received in final version. In addition, EFRAG has received two draft letters which have been considered for the present summary of feedback but are not published on the EFRAG's website.

4 All final letters received have been uploaded to EFRAG's website.

5 Appendix 2 provides a list of all respondents who submitted final comment letters.

Summary of respondents' views

Question 1 – Impairment

6 Six out of six respondents who responded to this question, agreed that in general the impairment requirements work as intended and result in more timely recognition of credit losses. They also agreed that the impairment-related requirements in IFRS 9 and IFRS 7 result in providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows.

7 However, it was noted that some additional explanations, further referred to in responses to detailed questions would be beneficial.

8 The respondents suggested various changes to the priorities of the issues raised by EFRAG.

Question 2 – The general approach to recognising expected credit losses

9 All the constituents agreed that there were no fundamental questions about the general IFRS impairment approach and that after the implementation efforts and significant one-off costs, the impairment requirements were now applied at a reasonable cost which are not higher than expected.

10 Two constituents agreed with EFRAG suggestion that additional guidance addressing intragroup loans and guarantees could be helpful.

Question 3 – Determining significant increases in credit risk

11 Three constituents commented on this question.

12 Two constituents although agreeing that overall principle-based approach to assessing SICR seems to be generally appropriate, highlighted significant degree of judgement involved and some areas for clarification, including whether a combination of the relative and absolute thresholds to assess SICR is allowed under IFRS 9.

13 One respondent from insurance industry considered that there are no fatal flaws in the existing SICR principles, that they can be applied consistently, and no additional guidance is needed.

Question 4 – Measuring expected credit losses

14 All the constituents agreed with the EFRAG response that the requirements for measuring ECL generally work as intended and achieve the objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. Most of them noted, however, that additional clarifications or guidance would be helpful in certain areas.

Collective calculation of ECL on financial assets in Stage 1 (new)

15 The feedback received highlighted diverging views between preparers and enforcers on whether the ECL can be measured on a collective basis for the financial assets in Stage 1 for which SICR is evaluated on an individual basis.

Forward-looking scenarios (Spotlight 4.1)

16 Three respondents commented on this question with two of them considering that the existing guidance provides an adequate basis to implement the principle-based approach and no additional guidance on forward-looking scenarios is necessary.

17 One constituent considered that the excessive absence of guidance leads to situations in which similar entities on the same set of facts and circumstances and operating in the same regions come up with different macroeconomic scenarios. This constituent suggested to provide further application guidance, illustrative examples and be more prescriptive detailing "bright lines" about the type of information than an entity should consider.

Impact of climate-related risk factors

18 Three constituents who commented on this question, considered that it should be better dealt with more comprehensively either as part of this PIR or alternatively within the IASB project on climate-related risks.

19 One constituent suggested to take other aspects into account, such as impacts of climate-related risks on the macroeconomic scenarios: model adjustments, physical risks and eventual double counting. This constituent also suggested to assign a 'medium priority' to this issue.

Post-model adjustments or management overlays (Spotlight 4.2)

20 All the six constituents noted that post-model adjustments or management overlays are necessary to compensate for the lack of historical data, which is needed for ECL modelling with respect to sudden and previously unobserved (novel) risk factors. Five novel risks undermining the debtors' creditworthiness were highlighted by one of the constituents: inflation, supply of energy, supply chains, geopolitical and environmental risks.

21 Two respondents observed that the use of overlays significantly differs across banks and that the methodology and procedures for calculation and release of overlays are very heterogeneous in current practice and suggested to provide the implementation guidance and illustrative examples several aspects.

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments (medium priority)

22 Three constituents responded to the EFRAG's question to constituents. All of them applied exemption set out in paragraph 5.5.20 and did not report significant challenges.

23 Two constituents provided mixed views on the interaction with modification and derecognition. One constituent considered that additional guidance for derecognition of revolving credit facilities would be helpful since the derecognition moment sets the boundary for considering the behavioural life. Another constituent considered that additional guidance is not necessary.

24 Two constituents suggested that it would be helpful to include the guidance provided by the IASB educational video directly in IFRS 9.

Financial guarantee contracts and other credit enhancements

25 One of three constituents who responded to this question considered that the issues of financial guarantees and other credit enhancements and the distinction between integral and not-integral guarantees deserve further guidance in IFRS 9 since insufficient existing requirements may result in lack of comparability.

26 Another constituent suggested that the IASB could provide additional guidance on when the cash flows expected from credit enhancements (e.g., financial guarantees) should be reflected in the estimate of expected cash shortfalls for the purpose of measuring ECL, where credit enhancement is not explicitly mentioned in the contractual terms.

27 The third constituent mentioned that this issue was not relevant for their organisation.

Question 5 – Simplified approach for trade receivables, contract assets and lease receivables

28 Three constituents commented on this question. One constituent believed that the simplified approach reached its objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables.

Question 6 – Purchased or originated credit-impaired financial assets

29 Three constituents commented on this question. All of them highlighted that for financial institutions for which the occurrence of POCI financial assets is accidental to the business model, the accounting treatment is hardly operable and does not faithfully reflect the underlying economic substance of these transactions and management's objective when acquiring such assets.

30 These constituents proposed to allow the application of a single impairment model for all financial assets for those financial institutions that do not have a business model of acquiring and managing distressed financial assets.

Question 7 – Application of the impairment requirements in IFRS 9 with other requirements

31 Four constituents responded to this question. Three of them did not have other specific questions regarding application of the impairment requirements in addition to those mentioned in EFRAG's DCL.

32 One constituent noted that it is not entirely clear whether entities must distinguish and account differently for the modifications caused by a borrower's credit deterioration and modifications caused by other events (for example, changes in market conditions) and where these losses should be presented.

Question 8 – Transition

33 Three constituents commented on this question mentioning that they did not experience significant unexpected effects from applying transition requirements retrospectively.

34 One respondent from insurance industry noted that the insurance industry greatly appreciated the targeted amendments to the transition requirements in IFRS 17 which enabled insurance undertakings to provide more meaningful comparative information at transition to IFRS 17 and IFRS 9.

Question 9 – Credit risk disclosures

35 Five constituents commented on this question, providing mixed views. Three constituents, including one representing insurance industry, considered that there are no fatal flaws in current disclosure requirements in IFRS 7, the information provided is useful and comparable. In these respondents' view, the package of disclosure requirements is sufficient and strikes the proper balance between the users' needs and the operational and cost burden on preparers. Therefore, no additional disclosure is necessary.

36 Two constituents, including one representing European enforcer, on the contrary considered that disclosure do not always provide necessary information and lack comparability. One respondent suggested to assign 'high' priority to this issue.

37 These respondents suggested to complement the existing disclosure requirements with additional specific disclosure objectives, guidance and/or illustrative examples in several areas.

Question 10 – Other matters

38 Two respondents commented on this question.

39 One respondent suggested that more guidance and illustrative examples should be provided on how to properly incorporate climate-related risk factors (or ESG factors in general) in the measurement of ECL.

40 Another respondent from insurance industry reminded about the importance of recycling of the financial assets measured at FVOCI and the impairment model for equity instruments.

Main positions in EFRAG's proposed final comment letter

Cover letter

41 Considering the feedback received from constituents, the EFRAG Secretariat recommends amending the cover letter by replacing the paragraph mentioning the input sought on disclosure requirements by the new paragraph added to Question 9.

Question 1 – Impairment

42 Based on the feedback received from constituents, the EFRAG Secretariat does not recommend making any changes to its draft response and to prioritisation of the issues.

43 Since IFRS Standards deal primarily with the consolidated financial statements the EFRAG Secretariat does not suggest assigning 'high' priority to the intercompany loans issue.

Question 2 – The general approach to recognising expected credit losses

44 Considering the feedback received from constituents, the EFRAG Secretariat suggests not to change it response to Question 2.

Question 3 – Determining significant increases in credit risk

45 Considering the feedback received from constituents, the EFRAG Secretariat recommends adding to EFRAG's response to Question 3 the need for clarification of whether a combination of the relative and absolute thresholds to assess SICR is allowed under IFRS 9 for very high-quality exposures in Stage 1.

Question 4 – Measuring expected credit losses

Collective calculation of ECL on financial assets in Stage 1 (new)

46 Based on the feedback received, the EFRAG Secretariat suggests adding to its draft response to question (a) that that additional clarifications or guidance would be helpful in certain areas. One of these areas is the interaction of evaluation of SICR and consequent measurement of ECL on individual and collective basis.

47 The feedback showed that there is a lack of clarity on whether the ECL can be measured on a collective basis for the financial assets in Stage 1 for which SICR is evaluated on an individual basis. Or more broadly, more guidance is needed on when a combination of an individual and a collective approach for the ECL measurement may be required as well as examples of how a combination of both approaches could be applied to a portfolio of financial instruments with different characteristics.

Forward-looking scenarios (Spotlight 4.1)

48 Based on the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to its draft response.

Impact of climate-related risk factors

49 Based on the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to its draft response. The IASB has already initiated

its project *Climate-related Risks in the Financial Statements* where it would have an opportunity to holistically address the issues related to the climate-related risks.

Post-model adjustments or management overlays (Spotlight 4.2)

50 The EFRAG Secretariat suggests adding to its draft response the list of novel risks for which the post-model adjustments are used. The EFRAG Secretariat does not recommend listing all the factors for which constituents suggested that implementation guidance is needed in order not to hinder the principle-based approach of the IFRS 9, but to mention that they should be consistent with objective and verifiable evidence.

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments (medium priority) and financial guarantee contracts and other credit enhancements

51 The feedback is generally in line with the EFRAG draft response, therefore the EFRAG Secretariat does not recommend any changes to it.

Question 5 – Simplified approach for trade receivables, contract assets and lease receivables

52 Considering the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to its draft response to Question 5.

Question 6 – Purchased or originated credit-impaired financial assets

53 Given the feedback received from constituents, the EFRAG Secretariat considers that the EFRAG draft response already contains the main messages from the respondents. On the proposal to continue Stage 3 accounting for restructured or Stage 3 assets acquired through a business combination, the EFRAG Secretariat notes that the interaction of this proposal with IFRS 3 and IFRS 9 derecognition rules will create many unintended consequences. As a result, the EFRAG Secretariat does not propose any changes to its draft response to this question.

Question 7 – Application of the impairment requirements in IFRS 9 with other requirements

54 Considering the feedback received from constituents which is in line with EFRAG DCL, the EFRAG Secretariat does not recommend any changes to Question 7 in the draft comment letter.

Question 8 – Transition

55 Considering the feedback received from constituents, the EFRAG Secretariat recommends adding to Question 8 of the DCL that respondents did not report any significant unexpected effects from applying transition requirements retrospectively. They noted, however, that ongoing audit costs are higher than with IAS 39 model particularly in those situations where adjustments to the impairment model take place.

56 The EFRAG Secretariat also recommends including the appreciation from Insurance industry of the targeted amendments to the transition requirements in IFRS 17.

Question 9 – Credit risk disclosures

57 The EFRAG Secretariat acknowledges diverging views of preparers and enforcers on this issue and considers that it is important to balance these positions.

Therefore, the EFRAG Secretariat suggests adding to its draft response that the voices were raised in favour of adding more guidance and illustrative examples in the following areas: SICR, PMA, sensitivity analysis and climate-related risk disclosure. However, before doing that, EFRAG suggests the IASB to perform an outreach to ensure that the cost-benefit analysis can be achieved.

Question 10 – Other matters

58 The EFRAG Secretariat addressed the incorporation of climate-related risk factors in its response to Question 4.

59 The EFRAG Secretariat suggests adding the comments of insurance industry to its response to Question 10.

Question to EFRAG FR TEG

60 Does EFRAG FR TEG agree with the EFRAG Secretariat's recommendations in *Appendix 1: Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG FR TEG*?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG FR TEG

Question 1 - Impairment

Do the impairment requirements in IFRS 9 result in: **(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?** **(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing, and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing, or using information about financial instruments. This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.

Proposals in the ED

Background

1 *The IASB's main objective in developing the expected credit loss model was to provide users of financial statements with more useful information about an entity's expected credit losses on its financial assets and on its commitments to extend credit to facilitate users' assessments of the amount, timing, and uncertainty of future cash flows.*

2 *When it issued IFRS 9, the IASB expected that the impairment requirements would introduce significant and ongoing improvements to the reporting on financial instruments by providing more transparent and timely information about expected credit losses.*

3 *The IASB also assessed that preparers would incur most of their costs when preparing to move to the new impairment model. In particular, entities would have to invest in substantial system changes. Ongoing costs would be mitigated because of the simplifications and practical expedients introduced to reduce the operational burden of the expected credit loss model in IFRS 9. The IASB also expected that the significant improvements introduced by the model would outweigh those costs.*

Feedback received by the IASB (Spotlight 1)

4 *Information collected since IFRS 9 became effective, suggests that stakeholders have found that using the forward-looking expected credit loss model results in more timely recognition of credit losses than applying IAS 39, addressing the problem of delayed recognition of credit losses.*

5 *Initial feedback from stakeholders suggests the impairment requirements are generally working well in practice, including in periods of increased economic uncertainty.*

6 *Users of financial statements said the incorporation of forward-looking information results in more useful information about expected credit losses, including information with predictive value about the amount, timing, and uncertainty of future cash flows.*

7 *However, stakeholders observe diversity in application of the impairment requirements, including disclosure requirements in IFRS 7 Financial Instruments: Disclosures for credit risk, and identified application matters for specific requirements.*

EFRAG's tentative position

EFRAG considers that the impairment requirements in IFRS 9 generally work as intended. In general, the use of a forward-looking expected credit loss ('ECL') model results in more timely recognition of credit losses than applying IAS 39 *Financial Instruments: Recognition and Measurement*. The requirement to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk ('SICR') together with the disclosures, results in providing useful information to users of financial statements about the effects of credit risk on the amount, timing, and uncertainty of future cash flows.

Nevertheless, EFRAG identifies application issues or diversity in practice that should be further considered in the IASB's PIR project.

Particularly, EFRAG considers that the IASB should prioritise the review of the following issues that have a high priority:

- **Cash shortfalls used to measure ECLs** (ref. Question 2 of the RFI).
- **Interaction between modification, impairment, and derecognition requirements** (ref. Question 7 of the RFI).

In addition to these high-priority issues, EFRAG considers that the IASB should examine the following medium priority issues collected during the preparatory work:

(a) Intra-group loans and guarantees (ref. Question 2 of the RFI);

(b) Collective assessment of significant increases in credit risk (ref. Question 3 of the RFI);

(c) Loan commitments risk (ref. Question 4 of the RFI);

(d) Financial guarantee contracts and other credit enhancements (ref. Question 4 of the RFI);

(e) Application matters on POCI's requirements (ref. Question 6 of the RFI).

EFRAG asked the questions to constituents whether they agree with the prioritisation of issues and whether they would like to raise some additional issues.

Summary of constituents' comments

8 All the constituents agreed that in general the impairment requirements work as intended and result in more timely recognition of credit losses. They also agreed that the impairment-related requirements in IFRS 9 and IFRS 7 result in providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows.

9 However, it was noted that some additional explanations, further referred to in responses to detailed questions would be beneficial.

10 One constituent from insurance industry noted that impairment model worked well for simple debt instruments and highlighted a need to have a robust impairment model for equity instruments in order to introduce recycling for equity instruments measured at fair value through other comprehensive income (FVOCI). This constituent further noted that simplicity or only one impairment model in IFRS 9 should not be considered as a desirable objective as such and should not prevent the IASB from overcoming the existing accounting deficiency for equity instruments. In particular, because those financial instruments are currently not tested for an impairment at all.

11 Another constituent stressed that given that insurance companies have recently applied IFRS 9 jointly with IFRS 17, the IASB should also collect their feedback on the application of IFRS 9 in the next period.

12 Three respondents who responded to EFRAG's questions to constituents, provided mixed views on the prioritisation of issues suggested by EFRAG and proposed the following changes:

- **'POCI' issue** – two respondents suggested to raise its priority to 'high' and suggested to reconsider the accounting (please refer to Question 6) and one - to keep it at 'medium'.
- **'Interaction between modification, impairment and derecognition requirements' issue** – one respondent suggested to downgrade it to 'medium' on the grounds that this issue already existed under IAS 39 and that any change in this regard could have major system implementation costs. This respondent also suggested to downgrade the **rest of the issues to 'low'** on the grounds of cost-benefit analysis.
- **Climate risk issue** – one constituent suggested to raise the priority of this issue to 'medium' and to consider how to incorporate climate risk (i) via model adjustments, (ii) its effect on collateral valuation and (iii) how to avoid double counting. Another respondent suggested not to deal with this issue in isolation and agreed with the EFRAG proposal.
- **Intercompany loans** – one constituent suggested to mark this issue as 'high'. In this constituent view the application of ECL to intercompany loans in individual financial statements may be costly and not balanced by benefit for users. This respondent suggested to exclude intercompany loans from the application of the ECL model, similarly to US GAAP.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

13 Based on the feedback received from constituents, the EFRAG Secretariat does not recommend making any changes to its draft response and to prioritisation of the issues.

14 Since IFRS Standards deal primarily with the consolidated financial statements the EFRAG Secretariat does not suggest assigning 'high' priority to the intercompany loans issue.

Question 2 - The general approach to recognising expected credit losses

(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach.

(b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost-benefit assessment for those instruments.

Proposals in the ED

15 *The IFRS 9 impairment model distinguishes between the effect of initial estimates of expected credit losses and subsequent changes. The model makes this distinction on the basis of increases in credit risk since initial recognition by requiring entities to recognise:*

- *a loss allowance at an amount equal to at least 12-month expected credit losses throughout the life of the instrument; and*
- *lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition.*

16 *In the IASB's view, recognising lifetime expected credit losses after a significant increase in credit risk better reflects economic losses in the financial statements. When credit is first extended, the initial creditworthiness of the borrower and initial expectations of credit losses are considered in determining pricing and other conditions of the financial instrument. The IASB noted that a true economic loss arises when expected credit losses exceed initial expectations (that is, when the lender is not receiving compensation for the level of credit risk to which it is now exposed).*

EFRAG's tentative position

Question (a)

EFRAG considers the general approach of IFRS 9 to recognise ECL generally provide an adequate basis to enable entities to provide useful information about changes in credit risk and resulting economic losses.

EFRAG has been informed that there is diversity in practice regarding the extent to which cash shortfalls should be considered in the calculation of ECL. The IFRS Interpretation Committee ('IFRS IC') Agenda Decision approved in October 2022 *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* (the 'AD') created further uncertainty about what the boundaries of credit risk are. Therefore, EFRAG considers the IASB should clarify whether and how the expression "all cash shortfalls" used in the Appendix A of IFRS 9 to define credit loss should be interpreted within the scope of concessions from the lender due to financial difficulties of the borrower.

EFRAG asked questions to constituents about other fact patterns where the general approach of IFRS 9 does not provide useful information about changes in credit risk and

resulting economic losses; about costs of auditing and enforcing the general approach; as well as about the usefulness of the resulting information for the users.

Question (b)

EFRAG is not aware that the ongoing costs of applying, auditing, and enforcing the IFRS 9 ECL general approach are significantly greater than expected or that the benefits to users are significantly lower than expected.

However, EFRAG notes that the following issues with calculating ECL on intra-group transactions would benefit from further clarifications. These issues are particularly relevant in jurisdictions where separate financial statements are prepared in accordance with IFRS Standards.

Intra-group loans and guarantees (medium priority)

EFRAG notes that, in practice, significant difficulties have been observed in how to calculate ECL on intra-group loans and suggests the IASB to consider introducing simplified rules for intra-group loans.

Joint and several guarantees

In EFRAG's view, additional guidance on how to measure obligations under joint and several guarantee arrangements and the resulting ECL, both at initial recognition and subsequently may be helpful.

EFRAG also asked a question to constituents about relevance of joint and several guarantees.

Summary of constituents' comments

17 All the constituents agreed that there were no fundamental questions about the general IFRS impairment approach and that after the implementation efforts and significant one-off costs, the impairment requirements were now applied at a reasonable cost which are not higher than expected.

18 Nevertheless, one constituent highlighted a continuous risk of incurring significant ongoing costs based on decisions of enforcers in the context of their reviews or interpretations of IFRS 9 (e.g., the need to measure ECL of financial assets in Stage 1 individually when they are evaluated for a significant increase in credit risk on an individual basis). Please refer to Question 4 for further details.

19 Two constituents agreed with EFRAG suggestion that additional guidance addressing intragroup loans and guarantees could be helpful.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

20 Considering the feedback received from constituents, the EFRAG Secretariat suggests not to change it response to Question 2.

Question 3 – Determining significant increases in credit risk

(a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?

Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on

all financial instruments for which there has been a significant increase in credit risk since initial recognition.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk.

(b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain, and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the assessment, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about applying judgement in determining significant increases in credit risk (see Spotlight 3).

Proposals in the ED

Background

21 *IFRS 9 uses a principle-based approach to assessing significant increases in credit risk instead of prescriptive rules that might create 'bright lines'; it does not prescribe a specific or mechanistic approach to assess changes in credit risk. The IASB was of the view that the most appropriate approach to apply would vary depending on the entity's sophistication, the characteristics of a financial instrument and the availability of data.*

22 *Regardless of the approach an entity chooses, the entity is required to consider the change in the risk of default occurring since initial recognition, over the expected life of the financial instrument. Also, it might be necessary for an entity to perform the assessment of significant increases in credit risk on a collective basis by considering information that indicates significant increases in credit risk on, for example, a group or subgroup of financial instruments.*

23 *IFRS 9 allows an entity a rebuttable presumption that the credit risk on a financial instrument has increased significantly, and that lifetime expected credit losses be recognised, when a financial asset is more than 30 days past due.*

24 *In addition, the IASB did not specifically define 'default' in IFRS 9 but included a rebuttable presumption that default does not occur later than 90 days past due, unless an entity has reasonable and supportable information to support a more lagging default criterion. An entity would also need to consider qualitative indicators of default when appropriate (for example, for financial instruments that include covenants that can lead to events of default). An entity should apply a default definition that is consistent with its credit risk management practices for the relevant financial instruments.*

Feedback received by the IASB (Spotlight 3)

25 *Stakeholders considered that even though principle-based requirements are fundamental they requested for more application guidance on what is considered a significant increase in credit risk for particular fact patterns, to ensure requirements are applied consistently.*

26 *The IASB emphasised that 'applied consistently' does not mean 'applied identically' and an indication of inconsistent application would be similar entities reaching different conclusions on the same set of facts and circumstances, in the same context.*

EFRAG's tentative position

Question (a)

EFRAG is of the view that the principle-based approach instead of prescriptive rules to assessing significant increases in credit risk helps to achieve the IASB's objective of recognising lifetime ECL when there has been a SICR since initial recognition.

EFRAG, at this stage, is not aware of any fatal flaws regarding the assessment of SICR.

Question (b)

EFRAG is of the view that, generally, the assessment of SICR can be applied consistently. However, EFRAG has been informed of the following instances whereby there are difficulties in applying the SICR requirements in IFRS 9 and application guidance are difficult to be applied consistently.

Collective assessment of significant increases in credit risk (medium priority)

EFRAG has been informed that it may not be possible, in practice, to apply the collective assessment (as per paragraph B5.5.1 of IFRS 9) in the way described in the Illustrative Example 5 in IFRS 9. As a result, banks usually prefer to first allocate exposure to stage two based on an individual assessment and then to apply a collective approach to the remaining stage one exposures.

EFRAG considers that the collective assessment should be maintained by the IASB as this assessment would reflect changes in credit quality not yet detected at an individual level. Nevertheless, EFRAG suggests the IASB provides more real-life examples to increase the application of the collective assessment of SICR and also how to allocate the credit risk to an individual level as required for regulatory purposes. Such examples would ease the difficulties in making the assessment of SICR on a collective level, stressing the probability of default indicators, and whether and how the collective versus individual assessment can be applied simultaneously.

Summary of constituents' comments

27 Three constituents commented on this question.

28 Two constituents although agreeing that overall principle-based approach to assessing SICR seems to be generally appropriate, highlighted significant degree of judgement involved and the following areas for clarification:

(a) To provide further clarification about "bright lines" and the information that needs to be considered in the mechanistic approach to determine the probability of default when assessing SICR.

(b) To assess credit risk on a basis that considers a borrower's creditworthiness more holistically, e.g., by incorporating credit risk criteria at the borrower's (and not at the individual instrument) level.

(c) How to extend the application of the low credit risk exemption by credit institutions compatible with the pronouncements of the Basel Committee on Banking Supervision. In practice it is not possible to apply the exemption to retail exposures due to inability to perform an individual assessment demonstrating that the borrower has the required resilience of a widely understood definition of low credit risk, even if the PD at the reporting date is deemed to be low.

(d) Whether a combination of the relative and absolute thresholds to assess SICR is allowed under IFRS 9. This is particularly relevant for high quality assets in Stage 1 (to avoid them moving to Stage 2 as a result of a very small absolute PD change).

(e) The application of the collective SICR assessment. In particular, explanations on the bottom up and top-down approaches, the application of which is currently only shown in the Illustrative Examples accompanying IFRS 9 (IE38 and IE39).

29 One respondent from insurance industry considered that there are no fatal flaws in the existing SICR principles, that they can be applied consistently, and no additional guidance is needed. This respondent shared the IASB view that "applied consistently" does not mean "applied identically" and that professional judgment would still need to be applied. This respondent stressed the importance of low credit risk exemption for insurance industry, especially from an operational perspective.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

30 Considering the feedback received from constituents, the EFRAG Secretariat recommends adding to EFRAG's response to Question 3 the need for clarification of whether a combination of the relative and absolute thresholds to assess SICR is allowed under IFRS 9 for very high-quality exposures in Stage 1.

31 The EFRAG Secretariat is of the view that asking for "bright lines" type of guidance contradicts the principle-based approach of IFRS 9 and agrees with the IASB reasoning in paragraph BC5.156 of IFRS 9.

32 The EFRAG Secretariat is also of the view that SICR should be assessed at the individual instrument and not at the borrower level. The EFRAG Secretariat agrees with the IASB reasoning that the objective of the impairment requirements is to reflect the economics of lending to provide users of financial statements with relevant information about the performance of financial instruments instead of the performance of a counterparty (paragraph BC5.167 of IFRS 9).

Question 4 - Measuring expected credit losses

(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing, and uncertainty of an entity's future cash flows. If not, please

explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.

(b) Can the measurement requirements be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain, and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the requirements, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about forward-looking scenarios (see Spotlight 4.1), post-model adjustments or management overlays (see Spotlight 4.2) and off-balance-sheet exposures (see Spotlight 4.3), as relevant.

Proposals in the ED

33 *IFRS 9 requires the measurement of expected credit losses to reflect:*

- *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*
- *the time value of money; and*
- *reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, and forecasts of future economic conditions.*

34 *IFRS 9 follows the principle-based approach for the measurement of ECL allowing entity to choose the most appropriate techniques suitable in particular circumstances. For this reason, IFRS 9 does not prescribe neither these techniques, nor the types of models (statistical or credit-rating, etc) to be used for measuring ECL.*

35 *Regardless of the techniques used, IFRS 9 requires an entity to adjust its measurement approach in various circumstances to reflect reasonable and supportable information (historical, current, and forward-looking), available without undue cost or effort.*

36 *For the purpose of measuring ECL, IFRS 9 requires the estimate of expected cash shortfalls to include the cash flows expected from collateral and other credit enhancements held that are part of the contractual terms and are not recognised separately by an entity.*

37 *IFRS 9 does not provide requirements about the accounting for collateral and other credit enhancements held that are not part of the contractual terms of a financial instrument.*

38 *In its RFI, the IASB considers in more details the three aspects of the requirements for measuring the ECL:*

- *Forward-looking scenarios;*
- *Post-model adjustments or management overlays; and*

- *Off-balance-sheet exposures.*

Forward-looking scenarios (Spotlight 4.1)

39 *When measuring ECL, an entity reflects the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the if the most likely outcome is no credit loss.*

40 *IFRS 9 requires the estimate of ECL to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The IASB notes that this analysis does not necessarily need to be complex and to reflect every possible scenario or a large number of detailed simulations of scenarios. But in some cases, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.*

41 *Stakeholders informed the IASB about* ***the diversity in the number of scenarios entities identify, the variables considered, and the weightings attached to particular scenarios****. Some stakeholders said diversity in application arises because the requirements are objective-based and not prescriptive. Others said a principle-based approach is critical, but the diversity arises because it is unclear what entities need to achieve with the multiple scenarios (for example, whether scenario analysis is required to be comprehensive enough to capture non-linearity between economic variables).*

42 Therefore, the IASB would like to understand:

- ***the cause of the diversity in application in this area; and***
- ***whether adopting a principle-based, instead of prescriptive, approach to measure ECL helps reduce complexity and mitigate operational challenges by allowing an entity to use techniques that work best in its specific circumstances.***

43 *The IASB also received questions about* ***how to reflect the forward-looking information about particular risks, such as climate risk, into the measurement of ECL****.*

Post-model adjustments or management overlays (Spotlight 4.2)

44 *The IASB was informed about an* ***increased use of post-model adjustments or management overlays****[1], due to the economic uncertainty increased in recent years, particularly economic conditions for which historical information is not necessarily representative of the future economic outlook.*

45 *Users of financial statements and regulators have expressed concerns about the increased use of these adjustments or overlays because they involve subjective management assessments and might not be subject to the same governance processes as statistical models are (e.g., model validation frameworks). The size and nature of such adjustments and the reasons for their use vary significantly from entity to entity, reducing comparability of ECL amounts between entities.*

46 *IASB notes that IFRS 7 already requires entities to provide information that allows users to evaluate the ECL amounts, regardless of whether they are determined*

[1] The term 'post-model adjustments or management overlays' refers to all model overlays, management overlays, model overrides or other adjustments made to model output when existing models do not adequately reflect risks and uncertainties.

using statistical models or post-model adjustments or management overlays. IFRS 7 also requires disclosures about inputs, assumptions and techniques applied to measure ECL.

47 *However, the IASB was informed that many entities do not provide entity-specific information in financial statements that would allow users to understand and evaluate management assessments reflected in the post-model adjustments or management overlays. See also Question 9 on credit risk disclosures.*

48 *Therefore,* ***the IASB would like to understand the circumstances in which the use of post-model adjustments or management overlays significantly reduces the usefulness of information provided to users of financial statements and how that relates to the requirements in IFRS 9 or IFRS 7.***

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments

49 *Applying IFRS 9, in general, the maximum period over which ECL is measured is the maximum contractual period (including extension options) that the entity is exposed to credit risk and not a longer period. However, during the development of IFRS 9, stakeholders' feedback indicated that the restriction to the contractual period was of particular concern for some types of loan commitments.*

50 *In response, the IASB added an exception in IFRS 9 for financial instruments that include both a drawn and an undrawn commitment component (because their ECL is not estimated separately) and for which the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For these financial instruments, entities are required to measure ECL over the period during which the financial instrument is exposed to credit risk and ECL would not be mitigated by the entity's credit risk management actions, even if that period extends beyond the maximum contractual period (paragraph 5.5.20 of IFRS 9).*

51 *The IASB was informed that application questions still arise, for example, difficulties were reported in determining the maximum period to consider for measuring ECL on financial instruments such as revolving credit facilities, or difficulties in assessing whether particular financial instruments fall within the scope of the exception.*

52 ***The IASB would like to understand the types of financial instruments (and their characteristics) that cause significant challenges for entities applying the exception.***

Financial guarantee contracts issued

53 *The issuer of a financial guarantee contract to which IFRS 9 is applied initially recognises a financial guarantee contract at fair value, which is likely to be equal to the premium received. These financial guarantee contracts are subsequently measured at the higher of the loss allowance determined in accordance with the impairment requirements in IFRS 9, and the amount initially recognised less the cumulative amount of income recognised in accordance with IFRS 15 Revenue from Contracts with Customers (IFRS 9, paragraph 4.2.1(c)).*

54 *The IASB was informed that in the absence of application guidance on how requirements for subsequent measurement are applied to financial guarantee contracts for which premiums are received over time, rather than up front on initial*

recognition results in diversity in presentation in the statement of financial position depending on whether premiums are received up front or over time.

55 ***The IASB is asking about the fact patterns in which diversity in applying the requirements is observed, the effects of diversity in financial statements and the pervasiveness of those fact patterns.***

EFRAG's tentative position

Question (a)

EFRAG considers that the principle-based approach of IFRS 9 to measure ECL together with disclosure requirements of IFRS 7 provide an adequate basis to enable users of financial statements to evaluate the information about the amount, timing, and uncertainty of an entity's future cash flows.

EFRAG is of the view that the requirements for measuring ECL work as intended.

Question (b)

Forward-looking scenarios (Spotlight 4.1)

EFRAG considers that the diversity of methods of estimating ECL is inherent in the principle-based approach to impairment of IFRS 9, including the macro-economic scenarios used and incorporation of forward-looking information. Nevertheless, EFRAG considers that lack of comparability in this case is offset by increased relevance of the resulting information.

Impact of climate-related risk factors

EFRAG considers that incorporating climate-related risks into the assessment of ECL should follow the general principles of including forward-looking factors into ECL model. EFRAG believes that the IASB's research project on *Climate-related Risks in the Financial Statements* could help identify any gaps in the guidance in a holistic manner.

EFRAG asked questions to constituents about the need of additional guidance on the incorporation of forward-looking scenarios in the calculation of ECL and the usefulness of information provided.

Post-model adjustments or management overlays (Spotlight 4.2)

EFRAG has been informed about different approaches applied in practice in how entities use the post-model adjustments. Therefore, EFRAG notes that guidance in which situations and for how long the post-model adjustments could be used before being incorporated into the existing ECL model would be helpful.

EFRAG understands the concerns that the governance around the top-level adjustments process may be weaker than for in-model adjustments but is not convinced that this issue can be efficiently addressed via standard-setting. Paragraph 35G of IFRS 7 already requires explanation of the inputs, assumptions and estimation techniques used to apply the impairment requirements of IFRS 9, including how forward-looking information has been incorporated into the determination of ECL and changes in estimation techniques or significant assumptions made during the reporting period and the reasons for those changes (paragraphs 35G(b) and (c)).

EFRAG asked questions to constituents about the use of post-model adjustments and management overlays by entities and the overall usefulness of the information provided.

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments (medium priority)

EFRAG notes that the scope of some loan commitments and their interaction with modification and derecognition remains unclear. In addition, the criteria of the IASB educational video are not reflected in the current version of IFRS 9.

EFRAG notes the diversity in practice in relation to:

- how to determine the ending-point of the period over which an entity expects, in practice, to be exposed to credit risk and, consequently, to measure ECL;
- SICR and resulting impact on ECL calculation dependent on the application of the modification and derecognition criteria for revolving credit facilities;
- additional assessment criteria not present in the current version of IFRS 9 or in IFRS IC interpretations or agenda decisions, brought by the IASB educational video.

EFRAG suggests to the IASB:

- To clarify the scope of application of paragraph 5.5.20 exception, including what is meant by "managed on a collective basis".
- To provide guidance how to connect existing rules on modification and derecognition with the characteristics of revolving credit facilities or financial instruments composed of a drawn amount and an undrawn commitment.
- To include guidance and the key messages provided by the IASB educational video in IFRS 9.

EFRAG asked the questions to constituents about the types and characteristics of financial instruments that cause significant challenges to apply the exception in paragraph 5.5.20; the need for clarification of interaction with modification and derecognition requirements of IFRS 9 and inclusion of key messages from the IASB educational video to the Standard.

Financial guarantee contracts and other credit enhancements

Integral vs non-integral

EFRAG notes that significant differences in practice are observed in defining whether a credit enhancement is integral or not when it is not mentioned in the contractual terms of the loan.

Holder perspective

EFRAG notes that IFRS 9 does not provide guidance on how to account for financial guarantees and credit enhancements which are not part of the contractual terms, and that significant judgement is sometimes required to assess whether the financial guarantee is an integral part of the financial instrument. Considering that different conclusions could lead to different accounting impacts, EFRAG suggests that application guidance on this aspect is needed to help reduce diversity in practice and provide relevant information to the users of financial statements.

Issuer perspective

The feedback received by EFRAG during its initial outreach to European constituents highlighted that the use of credit enhancements and financial guarantee contracts is widespread and increasing in Europe.

In EFRAG's view, the accounting differences based on the payment methods of the premium received (upfront or over time) may not provide useful information to users of financial statements given that the risks to which the issuer is exposed are the same in both cases.

EFRAG asked questions to constituents about relevance of financial guarantee contracts and other credit enhancements and their impact on the profit and loss statement.

Summary of constituents' comments

56 All the constituents agreed with the EFRAG response to question 4(a) that the requirements for measuring ECL generally work as intended and achieve the objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. Most of them noted, however, that additional clarifications or guidance would be helpful in certain areas.

Collective calculation of ECL on financial assets in Stage 1 (new)

57 The feedback received highlighted diverging views between preparers and enforcers on whether the ECL can be measured on a collective basis for the financial assets in Stage 1 for which SICR is evaluated on an individual basis.

58 IFRS 9 does not require an entity to measure ECL individually for each risk exposure. However, it states that if an entity does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime ECLs on an individual basis, then it recognises lifetime expected credit losses on a collective basis.

59 Preparers consider that the concept of 'undue cost and effort' allows to measure ECL on a collective basis, despite the fact the SICR is measured on individual basis, while enforcers are of the view that 12-month ECL, being a part of lifetime ECL (IFRS 9, paragraph B5.5.43) should be measured on individual basis, especially in the case of corporate loans portfolio.

60 Preparers suggest to explicitly clarify in the IFRS 9 that the evaluation for SICR on an individual basis does not preclude to calculate ECL on a collective basis.

61 Enforcers suggest the IASB to explain when a combination of an individual and a collective approach for the ECL measurement may be required and provide an example of how a combination of both approaches could be applied to a portfolio of financial instruments with different characteristics.

Forward-looking scenarios (Spotlight 4.1)

62 Three respondents commented on this question with two of them considering that the existing guidance provides an adequate basis to implement the principle-based approach and no additional guidance on forward-looking scenarios is necessary. They agreed with the EFRAG view that the lack of comparability is offset by an increased relevance of the resulting information and noted that changes of the guidance in this area may result in additional cost for prepares.

63 One constituent although agreeing with EFRAG view that principle-based approach provides more flexibility, considered that the excessive absence of guidance leads to situations in which similar entities on the same set of facts and circumstances and operating in the same regions come up with different macroeconomic scenarios. This constituent highlighted a high degree of judgement in setting the following factors:

(a) macroeconomic variables;

(b) number of macroeconomic scenarios;

(c) time horizon of the macroeconomic scenarios;

(d) weights of the macroeconomic scenarios; and

(e) granularity of the macroeconomic scenarios per region.

64 The constituent suggested that the IASB could provide further application guidance, illustrative examples and be more prescriptive detailing "bright lines" about the type of information than an entity should consider.

Impact of climate-related risk factors

65 Three constituents who commented on climate-related risks, considered that it should be better dealt with more comprehensively either as part of this PIR or alternatively within the IASB project on climate-related risks. The IASB should consider whether specific guidance (i.e., examples) in IFRS 9 or educational material could be provided regarding the consideration of climate risks and other environmental aspects in measuring ECL, in particular, examples of in-model PD adjustments would be useful.

66 One constituent noted that IFRS 9 does not set bright lines on how to incorporate climate and other ESG related factors in recognising and measuring ECL. This constituent considered that in addition to impact of climate-related factors on forward-looking information other aspects should be taken into account, such as impacts of climate-related risks on the macroeconomic scenarios; model adjustments, physical risks and eventual double counting through (i) pricing via credit spreads (ii) ECL model inputs – e.g., PDs, LGDs and other parameters.

67 This constituent also suggested to assign a 'medium priority' to this issue.

Post-model adjustments or management overlays (Spotlight 4.2)

68 All the constituents noted that post-model adjustments or management overlays are necessary to compensate for the lack of historical data, which is needed for ECL modelling with respect to sudden and previously unobserved (novel) risk factors. Five novel risks undermining the debtors' creditworthiness were highlighted by one of the constituents: inflation, supply of energy, supply chains, geopolitical and environmental risks.

69 Two respondents observed that the use of overlays significantly differs across banks and that the methodology and procedures for calculation and release of overlays are very heterogeneous in current practice.

70 They suggested to provide the implementation guidance and illustrative examples on:

(a) The use of management overlays, particularly on emphasising the need for consistency with objective and verifiable evidence (e.g., observable macroeconomic variables and forward-looking forecasts).

(b) Possible effects on stage transfers.

(c) The timing of derecognition of the overlay.

(d) Identification of risks at PD, LGD or both levels.

(e) Simulations, scenario analysis, sampling techniques to estimate collective allowances at sectorial level.

(f) How banks can capture the effects of higher interest rates by increasing the probability of default.

(g) How banks can use historical data to simulate the stress of debt service capacity stemming from the increase in the cost of living.

(h) How banks can include physical and transition risks associated with climate in the estimation of post-model adjustments or management overlays.

71 One respondent stressed that use of management overlays does not reduce the usefulness of the information but on the contrary, ensures that the information provided leads to a proper reflection of the entity's professional assessment and ensures that information provided is faithful, meaningful and useful. Hence, the post-model adjustments, based on documented thought-processes, need to be retained as an important and inherently necessary element of the ECL model design in IFRS 9. In this constituent view, these adjustments based on professional judgment and discretion are essential as they allow the model to work as intended, i.e., to result in reasonable financial reporting outcomes in entity-specific circumstances.

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments (medium priority)

72 Three constituents responded to the EFRAG's question to constituents. All of them applied exemption set out in paragraph 5.5.20 and did not report significant challenges.

73 One constituent noted that it applies the exception in paragraph 5.5.20 for considering the behavioural rather than contractual life of the instruments to products such as credit cards, overdrafts and revolving facilities which result to drawing a loan on a revolving basis. This constituent applied the requirement for collective management in paragraph B5.5.39(c) as a determining factor, i.e., in order to qualify for the exception, the instruments must be managed on a collective basis.

74 Another constituent noted that entities assess whether an instrument is in the scope of the exception in paragraph 5.5.20 based on the specific facts and circumstances, irrespective of whether the borrower is an individual or a corporate entity. Generally speaking, the exception applies in those cases where credit risk of the facilities is managed by system-generated alerts on behavioural data, such as overdue status and utilisation of the facilities.

75 Two constituents provided mixed views on the interaction with modification and derecognition. One constituent considered that additional guidance for derecognition of revolving credit facilities would be helpful since the derecognition moment sets the boundary for considering the behavioural life. Another constituent considered that additional guidance is not necessary.

76 Two constituents suggested that it would be helpful to include the guidance provided by the IASB educational video directly in IFRS 9. One constituent noted

that the existing Illustrative Example 10 in IFRS 9 does not provide much aid for implementation of the requirements from practical perspective.

77 The rest of respondents did not comment on the above questions.

Financial guarantee contracts and other credit enhancements

78 One of three constituents who responded to this question considered that the issues of financial guarantees and other credit enhancements and the distinction between integral and not-integral guarantees deserve further guidance in IFRS 9 since insufficient existing requirements may result in lack of comparability.

79 Another constituent suggested that the IASB could provide additional guidance on when the cash flows expected from credit enhancements (e.g., financial guarantees) should be reflected in the estimate of expected cash shortfalls for the purpose of measuring ECL, as this is not always very clear in practice. This relates to the cases where credit enhancement is not explicitly mentioned in the contractual terms. This constituent referred to March 2019 IFRIC Update that mentions that the Transition Resource Group for Impairment of Financial Instruments (ITG) discussed in December 2015 what is meant by 'part of the contractual terms' in paragraph B5.5.55. The ITG observed in particular that credit enhancements included in the measurement of ECL should not be limited to those that are explicitly part of the contractual terms and the entity should apply its judgement in assessing whether a credit enhancement is integral to the contractual terms considering all relevant facts and circumstances. Therefore, additional guidance in IFRS 9 on how to apply this judgement would be helpful.

80 The third constituent mentioned that this issue was not relevant for their organisation.

81 The rest of the constituents did not comment on this question.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

Collective calculation of ECL on financial assets in Stage 1 (new)

82 Based on the feedback received, the EFRAG Secretariat suggests adding to its draft response to question (a) that additional clarifications or guidance would be helpful in certain areas. One of these areas is the interaction of evaluation of SICR and consequent measurement of ECL on individual and collective basis.

83 The feedback showed that there is a lack of clarity on whether the ECL can be measured on a collective basis for the financial assets in Stage 1 for which SICR is evaluated on an individual basis. Or more broadly, more guidance is needed on when a combination of an individual and a collective approach for the ECL measurement may be required as well as examples of how a combination of both approaches could be applied to a portfolio of financial instruments with different characteristics.

Forward-looking scenarios (Spotlight 4.1)

84 Based on the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to its draft response. The EFRAG Secretariat does not recommend adding bright-line guidance on forward-looking scenarios on the grounds explained in paragraphs 31 and 32 of this document.

Impact of climate-related risk factors

85 Based on the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to its draft response. The IASB has already initiated its project *Climate-related Risks in the Financial Statements* where it would have an opportunity to holistically address the issues related to the climate-related risks.

Post-model adjustments or management overlays (Spotlight 4.2)

86 The EFRAG Secretariat suggests adding to its draft response the list of novel risks for which the post-model adjustments are used. The EFRAG Secretariat does not recommend listing all the factors for which constituents suggested that implementation guidance is needed in order not to hinder the principle-based approach of the IFRS 9, but to mention that they should be consistent with objective and verifiable evidence.

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments (medium priority)

87 The feedback is generally in line with the EFRAG draft response, therefore the EFRAG Secretariat does not recommend any changes to it.

Financial guarantee contracts and other credit enhancements

88 The EFRAG Secretariat does not recommend any changes to this question as the feedback from constituents is already covered by the EFRAG's draft response.

Question 5 - Simplified approach for trade receivables, contract assets and lease receivables

(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions?

Does applying the simplified approach achieve the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables?

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the simplified approach.

(b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of applying the simplified approach are significantly greater than expected, or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost-benefit assessment.

Proposals in the ED

89 The simplified approach for calculating ECL is available for non-financial institutions and other entities (paragraphs 5.5.15 – 5.5.16 of IFRS 9). It applies to trade receivables and contract assets that result from transactions within the scope of IFRS 15, and lease receivables that result from transactions within the scope of IFRS 16. The simplified approach removes the need to calculate 12-month ECL and track the increase in credit risk for these assets.

90 Under the simplified approach an entity:

- *is required to recognise lifetime ECL for trade receivables or contract assets without a significant financing component; and*
- *has an accounting policy choice to recognise lifetime ECL for trade receivables or contract assets with a significant financing component and lease receivables.*

91 As a practical expedient, IFRS 9 allows entities to calculate ECL on trade receivables using a provision matrix. An entity would adjust historical provision rates, which are an average of historical outcomes, to reflect relevant information about current conditions as well as reasonable and supportable forecasts and their implications for expected credit losses, including the time value of money.

EFRAG's tentative position

Question (a)

EFRAG considers that the simplified approach generally achieves the objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables. It allows entities which are not financial institutions and do not have complex credit risk management systems to measure the loss allowance for the trade receivables, contract assets and lease receivables at an amount equal to lifetime ECL.

Question (b)

Notwithstanding the above, EFRAG notes that questions on how the ECL model of IFRS 9 applies to voluntarily forgiven cash flows from the lease payments and the recent IFRS IC decision on this topic raise questions about how far the concept of credit loss under IFRS 9 can be extended.

Summary of constituents' comments

92 Three constituents commented on this question. One constituent believed that the simplified approach reached its objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables.

93 One constituent noted that it applied the simplified approach only when it is mandatory and another commented that some of its members apply a simplified approach of the impairment model contained in IFRS 9 to premiums receivable from an intermediary (given the flexibility contained in IFRS 17 and IFRS 9).

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

94 Given the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to its draft response to Question 5.

Question 6 - Purchased or originated credit-impaired financial assets

Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?

Please explain whether the requirements can be applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions.

If there are specific application questions about these requirements, please describe the fact pattern and:

(a) explain how the IFRS 9 requirements are applied;

(b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect);

(c) explain how pervasive the fact pattern is; and

(d) support your feedback with evidence.

Proposals in the ED

95 *For purchased or originated credit-impaired financial assets, an entity is required to:*

- *apply the credit-adjusted effective interest rate, calculated by considering the initial expected credit losses in the estimated cash flows, to the amortised cost of those assets from initial recognition;*
- *recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance; and*
- *recognise the amount of the change in lifetime expected credit losses as an impairment gain or loss in the statement of profit or loss.*

96 *In the IASB's view, this approach more faithfully represents the underlying economic effects of these types of financial assets than the general approach to recognising expected credit losses. During the development of IFRS 9, the IASB expected this approach to be operable because it was consistent with the previous accounting treatment required by IAS 39 and would be applied to a subset of financial assets only.*

EFRAG's tentative position

EFRAG is not aware that the IFRS 9 requirements cannot be applied consistently to purchased or originated credit-impaired financial assets. However, EFRAG considers the IASB should examine the following application matters:

- the scope of the POCI category;
- when the financial assets newly recognised after restructuring can be considered as POCI;
- the extent to which a POCI financial asset could be allocated both upon initial recognition and in subsequent periods (Stage 2 and 3 or Stage 3 only);
- in order to have a consistent way of presenting the movements in ECL on POCI financial assets, especially in the case where there is an improvement in credit quality in excess of the entity's expectations at initial recognition. Currently, some recognise the effect of improvements in credit risk as a negative entry to the ECL allowance, whereas others recognise it as an adjustment to the gross carrying amount of a financial asset; and

- how the modification and derecognition requirements interact with the POCI requirements.

Summary of constituents' comments

97 Three constituents commented on this question. All of them highlighted that for financial institutions for which the occurrence of POCI financial assets is accidental to the business model, the accounting treatment is hardly operable and does not faithfully reflect the underlying economic substance of these transactions and management's objective when acquiring such assets. This arises in two cases:

(a) POCI financial assets are acquired in the context of a business combination where the acquired entity has stage 3 loans. The loans and the business model would remain unchanged, but at consolidated level one would need to account for these loans as POCI.

(b) Financial assets which result from derecognition of non-performing loans as a result of their restructuring. The aim of the restructuring is to recover as much as possible of the principle outstanding and interest payments due. In this case the POCI measurement and presentation requirements do not provide useful information, especially when the restructuring is successful, and the debtor returns to performing regular payments of principal and interest.

98 These constituents proposed to allow the application of a single impairment model for all financial assets for those financial institutions that do not have a business model of acquiring and managing distressed financial assets:

(a) POCIs financial assets classified in stages with transfers between them permitted.

(b) Gross-up approach, whereby an allowance is recognised for initial expected credit losses and is used to gross-up the carrying amount of the POCI financial asset.

(c) To continue stage 3 accounting after the restructuring of the loans which are credit impaired.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

99 Given the feedback received from constituents, the EFRAG Secretariat considers that the EFRAG draft response already contains the main messages from the respondents. On the proposal to continue Stage 3 accounting for restructured or Stage 3 assets acquired through a business combination, the EFRAG Secretariat notes that the interaction of this proposal with IFRS 3 *Business Combinations* and IFRS 9 derecognition rules will create many unintended consequences. As a result, the EFRAG Secretariat does not propose any changes to its draft response to this question.

Question 7 - Application of the impairment requirements in IFRS 9 with other requirements

Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?

If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. Please describe the fact pattern and:

(a) indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate;

(b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect);

(c) explain how pervasive the fact pattern is; and

(d) support your feedback with evidence.

In responding to this question, please include information about matters described in this section of the document.

Proposals in the ED

100 The impairment requirements in IFRS 9 intersect with many other requirements both within IFRS 9 and in other IFRS Standards. Stakeholders told the IASB that sometimes the requirements are not sufficiently clear when applying the impairment requirements alongside other requirements in IFRS 9 or in other IFRS Standards, for example:

(a) **the modification of financial assets** – an entity is required to adjust the gross carrying amount of a financial asset when a modification does not result in derecognition and recognise a modification gain or loss in the statement of profit or loss. The IASB was previously made aware of application questions about the boundaries between the requirements on modification of financial assets and expected credit losses, including questions about the order in which these requirements are applied to a financial asset.

(b) ***the write-off of financial assets*** *– IFRS 9 requires an entity to directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering that financial asset or a portion thereof. Such a write-off constitutes a derecognition event, thus an entity is required to recognise a write-off loss. However, stakeholders said IFRS 9 does not provide requirements about the presentation of write-off losses, which leads to diversity in how entities present these losses in the statement of profit or loss.*

(c) ***the recognition of expected credit losses for trade receivables, contract assets and lease receivables*** *– an entity is required to apply the impairment requirements in IFRS 9 to assets such as trade receivables and contract assets that arise from transactions in scope of IFRS 15 and lease receivables that arise from transactions in scope of IFRS 16. Stakeholders have informed the IASB that there are specific questions about how to apply the impairment requirements to these transactions, including whether:*

(i) *an entity that accepts lower consideration from a customer whose financial position has deteriorated should account for the reduction in consideration as a contract modification applying IFRS 15 or as expected credit losses applying IFRS 9; and*

(ii) *a lessor should exclude the unguaranteed residual value of the asset underlying a finance lease applying IFRS 16 for the purpose of measuring expected credit losses in accordance with IFRS 9.*

(d) *The IASB would like to understand from stakeholders the application questions that arise because of the intersection between requirements, what requirements or lack thereof cause those questions and the pervasiveness of such questions.*

EFRAG's tentative position

Interaction between modification, impairment, and derecognition requirements (high priority)

In the view of EFRAG, in general, the interaction between modification, impairment, and derecognition requirements needs clarification. The allocation of the accounting effects to the three events (and the consequent presentation in the statement of profit or loss) depends on several factors and interpretations (e.g., the reason that causes the modification and/or the derecognition - commercial opportunities, financial difficulties of the borrower - or the order in which an entity considers the different elements).

Presentation of modification gains / losses vs impairment

EFRAG has been informed that questions arise in practice as to how to present modification gains or losses arising from impairment of an asset which caused a modification. It is unclear whether they can be considered as a "realised" impairment and presented in the impairment losses (gains) line item or presented as modification gains and losses in accordance with IFRS 9.

Modifications could also be made for various reasons, and not only related to credit risk issues (i.e., management decisions or market conditions). It is unclear whether gains or losses arising from these modifications should be aggregated together in one line item or presented separately.

Write-offs - diversity in practice

EFRAG has been informed that currently there is significant diversity in practice in applying write-offs. In case where the amount of loss on write-off is greater than the accumulated loss allowance it is not clear how the additional impairment loss should be presented.

In addition, EFRAG notes that the requirement "has no reasonable expectation of recovering" in paragraph 5.4.4 of IFRS 9 needs further application guidance as well as the accounting for subsequent recoveries of a financial asset.

Interaction between derecognition and ECL amount

EFRAG notes that the accounting requirements for loan restructurings in case of difficulties of the debtor (i.e., due to COVID-19) are unclear. In particular, the derecognition requirements for financial assets in IFRS 9 lack clarity on how to apply them to loans being restructured.

In addition, EFRAG has been informed that the initial fair value of a restructured loan is often not reasonably observable and, hence, often unreliable.

Furthermore, EFRAG notes that in case where the restructuring of the loan leads to an originated credit-impaired financial asset (POCI), the previous lifetime impairment allowance is reversed while no new allowance is recognised (in accordance with IFRS 9

paragraph 5.5.13 the entity shall only recognise the cumulative changes in lifetime ECL since initial recognition).

Summary of constituents' comments

101 Four constituents responded to this question. Three of them commented that they did not have other specific questions regarding application of the impairment requirements in addition to those mentioned in EFRAG's DCL.

102 One constituent noted that it is not entirely clear whether entities must distinguish and account differently for the modifications caused by a borrower's credit deterioration and modifications caused by other events (for example, changes in market conditions). Furthermore, in cases when a modification is caused by a borrower's credit deterioration, it seems unclear whether gains or losses should be presented in the impairment line item in the statement of profit or loss, or whether they should be accounted for as an adjustment to the gross carrying amount of the asset and presented in the statement of profit or loss, separately from the impairment line item.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

103 Considering the feedback received from constituents which is in line with EFRAG DCL, the EFRAG Secretariat does not recommend any changes to Question 7 in the draft comment letter.

Question 8 - Transition

Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?

Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

Please explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

Proposals in the ED

104 IFRS 9 required a retrospective application on initial application. However, given potential challenges, such as a lack of initial credit risk data and the risk of using hindsight, the IASB provided transition reliefs.

105 When applying some of those transition reliefs entities were allowed to:

(a) *apply practical expedients and rebuttable presumptions to determine whether there has been a significant increase in credit risk since initial recognition (for example, the low credit risk simplification in paragraph*

5.5.10 of IFRS 9[2] *and the 30 days past due rebuttable presumption in paragraph 5.5.11 of IFRS 9*[3]*); and*

(b) *recognise lifetime ECL at each reporting date until derecognition, if determining whether there had been a significant increase in credit risk since initial recognition would require undue cost or effort.*

106 *IFRS 9 did not require the presentation of restated comparative information. Instead, it required entities to disclose the effect on impairment of financial instruments of the transition to IFRS 9 (for example, by providing a reconciliation between the ending impairment allowances in accordance with IAS 39 and the opening loss allowances in accordance with IFRS 9).*

EFRAG's tentative position

EFRAG referred to the assessment made in its endorsement advice of IFRS 9 (September 2015) and noted that it is not aware about any unexpected effects of applying transition requirements.

Summary of constituents' comments

107 Three constituents commented on this question mentioning that they did not experience significant unexpected effects from applying transition requirements retrospectively.

108 One respondent applied the only transitional relief for not restating the comparative 2017 period.

109 Two respondents noted high one-off and ongoing audit costs compared to IAS 39 particularly in those situations in which adjustments to the impairment model take place.

110 One respondent from insurance industry noted that the insurance industry greatly appreciated the targeted amendments to the transition requirements in IFRS 17 that the IASB had provided on 9 December 2021 which enabled insurance undertakings to provide more meaningful comparative information at transition to IFRS 17 and IFRS 9.

111 This respondent also commented that the initial implementation of the ECL model requirements had required significant efforts and was a challenging and costly project for insurance undertakings, often ultimately more costly than expected. On this ground this respondent urged the IASB to not undertake any essential changes to the current requirements.

[2] Paragraph 5.5.10 of IFRS 9 - An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

[3] Paragraph 5.5.11 of IFRS 9 - …when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, an entity may use past due information to determine whether there have been significant increases in credit risk since initial recognition. Regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

112 Considering the feedback received from constituents, the EFRAG Secretariat recommends adding to Question 8 of the DCL that respondents did not report any significant unexpected effects from applying transition requirements retrospectively. They noted, however, that ongoing audit costs are higher than with IAS 39 model particularly in those situations where adjustments to the impairment model take place.

113 Insurance industry in particular greatly appreciated the targeted amendments to the transition requirements in IFRS 17 that the IASB had provided on 9 December 2021 which enabled insurance undertakings to provide more meaningful comparative information at transition to IFRS 17 and IFRS 9.

Question 9 - Credit risk disclosures

(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving:

(i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and

(ii) relevant information—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks.

If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements.

(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of providing specific credit risk disclosures are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified.

If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements.

Please also explain whether entities' credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare, and analyse credit risk information digitally.

Proposals in the ED

Background

114 IFRS 7 provides objective-based disclosure requirements for credit risk and identifies three disclosure objectives to assist users of financial statements to understand:

(a) *an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions, and information the entity uses;*

(b) *the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and*

(c) *an entity's credit risk exposure (that is, the credit risk inherent in an entity's financial assets and commitments to extend credit), including significant credit risk concentrations.*

115 *The IASB included objective-based disclosure requirements which allowed the entity to decide, in the light of its circumstances, how much information to disclose. In the IASB's view, this approach was necessary to strike a balance between overburdening financial statements with excessive detail that might not assist users of financial statements and obscuring important information as a result of too much aggregation.*

116 IFRS 7 sets out a combination of disclosure objectives and minimum disclosure requirements to provide comparable as well as relevant information.

Feedback received by the IASB (Spotlight 9)

117 Stakeholders told the IASB that they generally observe a lack of consistency in the disclosures that entities provide about:

(a) *determining significant increases in credit risk (see Spotlight 3);*

(b) *post-model adjustments or management overlays (see Spotlight 4.2);*

(c) *reconciliation from the opening balance to the closing balance of expected credit losses; and*

(d) *sensitivity analysis.*

118 Stakeholders suggested that the IASB add minimum disclosure requirements in these areas, specify the format of some disclosures and add particular illustrative examples in IFRS 7 to achieve greater consistency in the information disclosed, thus enhancing comparability.

EFRAG's tentative position

Question (a)

EFRAG has heard mixed views on the extent to which additional credit risk disclosures should be proposed to the IASB.

Therefore, EFRAG is seeking input from its constituents on whether there should be additional credit risk disclosure requirements.

EFRAG suggests, as a minimum, that the IASB provides some educational material to help entities to better disclose post-model adjustments which will allow users to understand and evaluate management assessments reflected in the post-model adjustments.

Question (b)

EFRAG is not aware that the costs of applying, auditing, and enforcing the disclosure requirements are significantly greater than expected as well as the benefits to users are significantly lower than expected.

Summary of constituents' comments

119 Five constituents commented on this question, providing mixed views. Three constituents, including one representing insurance industry, considered that there are no fatal flaws in current disclosure requirements in IFRS 7, the information provided is useful and comparable. In these respondents' view, the package of disclosure requirements is sufficient and strikes the proper balance between the users' needs and the operational and cost burden on preparers. Therefore, no additional disclosure is necessary.

120 One respondent agreed with EFRAG that educational material to help entities to better disclose post-model adjustments would be helpful.

121 One respondent commented that it does not have any information that the current disclosure requirements would not be compatible with digital reporting needs.

122 Two constituents, including one representing European enforcer, on the contrary considered that disclosure do not always provide necessary information and lack comparability. One respondent suggested to assign 'high' priority to this issue.

123 These respondents suggested to complement the existing disclosure requirements with additional specific disclosure objectives, guidance and/or illustrative examples in the following areas:

(a) Significant increase in credit risk (SICR) and

(i) its interaction with modification and forbearance measures;

(ii) quantitative and qualitative thresholds and factors;

(iii) length of the cure period;

(iv) qualitative and quantitative criteria used to define "low credit risk";

(v) Assessment of exposures affected by economic support and relief measures.

(b) Post-model adjustments (PMA) and management overlays

(i) Rationale and methodology applied for each material management adjustment;

(ii) Granular breakdown of the quantitative impact of the adjustments;

(iii) Significant changes in methodologies and assumptions.

(c) Sensitivity analysis for the credit risk.

(d) Climate-related risk disclosure.

(i) significant judgements made by management;

(ii) main areas impacted by climate-related risks;

(iii) basis for inputs and assumptions.

(iv) how forward-looking information was incorporated;

(v) the key climate-related areas of estimation uncertainty impacting ECL, among others.

(e) Forward-looking information - the main judgements and estimations related to uncertainties that have been taken into account when defining the macroeconomic scenarios and their weight.

(f) Changes in loss allowances - joint reconciliation of the loss allowance and the gross carrying amount.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

124 The EFRAG Secretariat acknowledges diverging views of preparers and enforcers on this issue and considers that it is important to balance these positions. Therefore, the EFRAG Secretariat suggests adding to its draft response that the voices were raised in favour of adding more guidance and illustrative examples in the following areas: SICR, PMA, sensitivity analysis and climate-related risk disclosure. However, before doing that, EFRAG suggests the IASB to perform an outreach to ensure that the cost-benefit analysis can be achieved.

Question 10 – Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment requirements in IFRS 9? If yes, what are those matters and why should they be examined?

Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised.

Please provide examples and supporting evidence.

(b) Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?

Proposals in the ED

125 The IASB is asking to share any information that would be helpful to them in assessing whether:

(a) *there are fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles in the IFRS 9 requirements for impairment;*

(b) *the benefits to users of financial statements of the information arising from applying the impairment requirements are significantly lower than expected;*

(c) *the costs of applying the impairment requirements and auditing and enforcing their application are significantly greater than expected.*

EFRAG's tentative position

Question (a)

EFRAG is not aware of any additional issues that the IASB should consider under this PIR.

Question (b)

EFRAG has no further views on potential elements that the IASB could consider in developing future IFRS Standards.

Summary of constituents' comments

126 Two respondents commented on this question.

127 One respondent suggested that more guidance and illustrative examples should be provided on how to properly incorporate climate-related risk factors (or ESG factors in general) in the measurement of ECL, due to wide variety of practices to calculate ECLs. This respondent suggested to assign medium priority to this issue.

128 Another respondent from insurance industry reminded that no impairment requirements for equity instruments measured at fair value through the other comprehensive income (FVOCI) exist in IFRS 9. This respondent reinforced its view that recycling of realised gains or losses at disposal of FVOCI equity instruments continues to be a key concern of the insurance industry. And this respondent continued to believe that a robust and non-complex impairment model for equity instruments could be easily incorporated into IFRS 9 as it has been identified by the IASB as one of the preconditions for the reintroduction of recycling for equities.

129 This respondent suggested to reconsider this issue as an essential element of the post-implementation review of IFRS 17 and highlighted that only adding new disclosure requirements is not a proper remedy to address it.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

130 The EFRAG Secretariat addressed the incorporation of climate-related risk factors in its response to Question 4.

131 The EFRAG Secretariat suggests adding the comments of insurance industry to its response to Question 10.

Appendix 2 – List of respondents

1 Comment letters received:

No	Name of constituent	Country	Type/Category
CL 001	Erste Group Bank	Austria	Preparer
CL 002	KBC Group	Belgium	Preparer
CL 003	ESBG	Belgium	Preparer organisation
CL 004	GDV	Germany	Preparer organisation
DCL1	Draft 1	EU	Enforcer
DCL2	Draft 1	Italy	National Standard Setter