EFRAG
Financial reporting

[Draft] Comment Letter

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Comments should be submitted by 13 September 2023.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX September 2023]

Dear Mr Barckow,

Re: Request for Information – Post-implementation Review IFRS 9 *Financial Instruments – Impairment*

On behalf of the EFRAG, I am writing to comment on the Request for Information – Post-implementation Review IFRS 9 *Financial Instruments – Impairment*, issued by the IASB on 30 May 2023 (the 'RFI').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

On 3 May 2023, the EFRAG FRB delegated EFRAG FR TEG to collect European views on the effects of applying the impairment requirements in IFRS 9 and to finalise EFRAG's response to this RFI.

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, feedback collected during outreach with Constituents and the preparatory work done for this Draft Comment Letter has led EFRAG to identify some issues of application or diversity in practice that should be further considered by the IASB in the context of this Post-implementation Review ('PIR') project.

Particularly, EFRAG considers that the IASB should prioritise the review of the following high priority matters :

- **Cash shortfalls used to measure ECLs** (ref. Question 2 of the RFI).

  EFRAG considers the IASB should clarify whether the expression "all cash shortfalls" used in 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.

- **Interaction between modification, impairment, and derecognition requirements** (ref. Question 7 of the RFI).

  EFRAG considers the IASB should clarify the interaction between modification, impairment, and derecognition requirements in IFRS 9.

In addition, on credit risk disclosures (ref. Question 9 of the RFI), EFRAG is seeking input from its constituents on whether there should be additional credit risk disclosure requirements.

Lastly, EFRAG observes that the insurance companies have jointly applied IFRS 9 and IFRS 17 *Insurance Contracts* since 1 January 2023 and are therefore still gaining their experience on this implementation. Hence, EFRAG encourages the IASB to collect further feedback on IFRS 9 from the insurance industry also in the context of the PIR on IFRS 17, given the close connection between the two standards.

EFRAG's detailed comments and responses to the questions in the RFI are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Didrik Thrane-Nielsen, Galina Borisova, Sapna Heeralall or me.

Yours sincerely,

Jens Berger
Acting Chair of the EFRAG FR TEG

Appendix - EFRAG's responses to the questions raised in the RFI

Question 1 – Impairment

Notes to constituents – Summary of presentation in the RFI

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.*

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.

EFRAG's response

8 The IASB developed the ECL model in IFRS 9, as a response to the "too little, too late" criticism of the incurred loss approach in impairment models, raised after of the 2007 – 2009 global financial crisis. Leaders of the G20 urged accounting standard setters to consider alternative approaches which would take into account more credit and macroeconomic information, and which would have a more forward-looking nature.

9 Consequently, the IASB developed a principle-based forward-looking impairment model that reflects expected credit losses. The ECL model should provide users of financial statements with relevant information about the amount, timing, and uncertainty of an entity's future cash flows, in a comparable, timely and understandable manner.

10 EFRAG acknowledges some concerns expressed by constituents on possible undesired effects of the ECL model in IFRS 9, mainly related to certain procyclicality effects[1], the high level of judgment involved and the robustness of the model in case of external shocks.

11 Some constituents, while assessing that the "too little, too late" criticism has been addressed, consider that the ECL model in IFRS 9 still has procyclicality effects. By anticipating a significant deterioration of credit conditions as a consequence of including forward-looking information to the ECL calculation, banks would be forced to increase provisions. This would result in lower earnings, lower capital rations, and credit contraction when lending is most needed.

12 Those constituents also note that the procyclicality effects may be related to, among others, the high level of judgement involved in the ECL model. Judgment and complexity implicit in the ECL model led to heterogeneity of practices observed for determining credit risk parameters (PD, LDG, SICR, forward-looking scenarios). In some jurisdictions regulators have encouraged financial institutions to adopt more conservative, homogeneous and contracyclical provisions for ECL. It was also noted that discretionary loan loss provisioning has, in the past, been used for earnings and capital management purposes.

13 Heterogeneity was also observed in how the effects of the Covid-19 crisis were incorporated in the ECL model (at the level of the IFRS 9 risk parameter or directly at the ECL level). Some constituents consider that the extensive use of post-model adjustment may indicate the need of some corrections of the ECL model by the

[1] By procyclicality effects, EFRAG understands when the banking sector, through a variety of channels or 'causal' links with the real economy, can exacerbate economic cycles, leading to excessive economic growth during upturns and deeper recessions in the downturns.

IASB. Furthermore, the interference of regulatory institutions during the Covid-19 pandemic to avoid excessively rigorous application of IFRS 9 accounting rules (in order to prevent the jeopardising of the government support measures) has been interpretated by some as evidence of the procyclical effects of the ECL model.

14 Understanding the above, EFRAG notes that feedback collected during its outreach with constituents and the preparatory work done for this Draft Comment Letter mainly demonstrates that using the forward-looking ECL model resulted in more timely recognition of credit losses than applying IAS 39, by addressing the problem of delayed recognition of credit losses.

15 Experimental studies and empirical evidence show that both on transition and in ongoing phases, ECL provisions are more predictive of credit risk of banking portfolios[2]. In particular, the transfer from Stage 1 to Stage 2 and the associated switch from the 12-month to the lifetime ECL calculation results in a strong rise in loan loss provisions.

16 Furthermore, IFRS 9 significantly extends the information set required to determine credit losses (all relevant information, including historical data, current conditions as well as supportable forecasts of future events and macroeconomic conditions – IFRS 9, paragraph 5.5.17), thus guaranteeing results that are more representative of the credit risk inherent in the financial assets[3].

17 EFRAG notes that IFRS 9 sets out a framework for determining the amount of ECL. However, it does not set bright lines or a mechanistic approach to determining when lifetime losses are required to be recognised, nor does it dictate the exact basis on which entities should determine forward-looking scenarios to consider when estimating ECL.

18 While on the one hand these characteristics imply the extensive use of judgments and estimates, on the other they give the IFRS 9 ECL model adequate flexibility to be adapted to different contexts and situations, ensuring alignment with entity-specific credit risk management practices. EFRAG shares the IASB's consideration that the ECL model should be aligned with internal credit risk management practices (within the boundaries of the Standard) to provide useful information.

19 Feedback demonstrates that the impairment requirements in IFRS 9 together with the disclosure requirements in IFRS 7 is considered to result in entities providing useful information to users of financial statements about the effect of credit risk on the amount, timing, and uncertainty of future cash flows.

20 Therefore, EFRAG is of the view that the impairment requirements in IFRS 9 generally work as intended and that on average the benefits introduced by the model outweigh the costs of application.

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

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

(a) **Cash shortfalls used to measure ECLs** (ref. Question 2 of the RFI).

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[2] For more detailed analysis, see agenda paper 04-02 of the EFRAG FR TEG meeting on 5 July 2023.

[3] The ECL model is also applied to Certain Loan commitments and financial guarantee contracts.

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.

(b) **Interaction between modification, impairment, and derecognition requirements** (ref. Question 7 of the RFI).

EFRAG is of the view that 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).

Therefore, EFRAG considers the IASB should clarify the interaction between modification, impairment, and derecognition requirements in IFRS 9.

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

Description	Priority for Europe
Q2 – The general approach to recognising expected credit losses	
Intra-group loans and guarantees	Medium
Q3 – Determining significant increases in credit risk	
Collective assessment of significant increases in credit risk	Medium
Q4 – Measuring expected credit losses	
Loan commitments	Medium
Financial guarantee contracts and other credit enhancements	Medium
Q6 – Purchased or originated credit-impaired financial assets	
Application matters on POCI's requirements	Medium

24 EFRAG also considers that the IASB's research project on *Climate-related Risks in the Financial Statements* could help identify in a holistic way any gaps in the guidance on how to incorporate climate-related risks into the assessment of ECL (ref. Question 4 of RFI).

25 Furthermore, EFRAG has heard mixed views on the extent to which additional credit risk disclosures should be proposed to the IASB (ref. Question 9 of RFI).

26 On the one hand, EFRAG has been informed that the level of disclosures provided is not always sufficient to understand the high levels of uncertainty arising from the level of judgement required by IFRS 9 for recognition of ECL (i.e., significant diversity in practice with different levels of detail about the assumptions taken, credit risk management policies, methodologies and models applied). On the other hand, EFRAG has also been informed that IFRS 7 disclosure objectives, including the disclosure requirements, provide an adequate basis for entities to disclose credit risk.

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

28 Detailed analysis of the issues listed above can be found in EFRAG's response to each individual question of the RFI.

Questions to Constituents

29 Do Constituents agree with the assessment of priority for Europe of issues identified as proposed in the EFRAG's response?

30 In addition to the issues reported in the EFRAG's response, 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 and the related disclosure requirements in IFRS 7? Please explain.

Question 2 – The general approach to recognising expected credit losses

Notes to constituents – Summary of presentation in the RFI

31 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) *a loss allowance at an amount equal to at least 12-month expected credit losses throughout the life of the instrument; and*

(b) *lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition.*

32 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).

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.

EFRAG's response

Question (a)

33 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.

34 EFRAG is of the view that the IFRS 9 impairment model achieves an appropriate balance between the benefits of a conceptual presentation of ECL and the operational costs and complexities. EFRAG notes that economic losses in the financial statements are best reflected using an impairment model that distinguishes between the effect of initial ECL estimates and subsequent changes in credit risk and, consequentially, in such loss expectations.

35 EFRAG, at this stage, is not aware of any fatal flaws regarding the general approach of IFRS 9 to recognise ECL.

36 Nevertheless, EFRAG notes that in some situations the diversity in practice exists and that additional guidance is needed to address the application questions, described below.

Cash shortfalls used to measure ECLs (high priority)

37 Paragraph 5.5.1 of IFRS 9 states that "*an entity shall recognise a loss allowance for expected credit losses on a financial asset...*".

38 Appendix A of IFRS 9 defines **expected credit losses** as "*the weighted average of credit losses with the respective risks of a default occurring as the weights*" (emphasis added). In the same appendix, **credit loss** is defined as "*the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets)*" (emphasis added).

39 Appendix A of IFRS 7 defines **credit risk** as "*the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation*".

40 EFRAG has been informed that the application of the ECL model to voluntarily forgiven cash flows is seen by some as extending the concept of credit loss under IFRS 9.

41 Furthermore, EFRAG understands that there is a diversity in practice on whether to restrict the cash shortfalls used to measure ECLs on financial assets to those arising from the counterparty's credit situation (and thus, ignoring shortfalls arising from the entity's decision to waive cash flows for reasons other than credit risk).

42 The definition of "credit loss" in IFRS 9 Appendix A which refers to "*all cash shortfalls*" has been read by some in conjunction with the general principles of IFRS 9 where ECL is calculated with reference to exposure to credit risk defined by reference to the risk of a default occurring. Therefore, the expression "*all cash shortfalls*" has been interpreted within the scope of concessions from the lender due to financial difficulties of the borrower.

43 On the contrary, others apply the definition of credit loss to all cash shortfalls, without limiting them to credit risk related events, blurring the line between ECL and contract modification.

44 In addition to this, EFRAG notes that the IFRS IC Agenda Decision approved in October 2022 *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* creates further uncertainty about what the boundaries of credit risk are. In the fact pattern submitted the lessor voluntary forgives a number of lease payments to the lessee, following the closure of its retail store to comply with government restrictions. The fact pattern submitted notes that:

(a) Some lessors treat this forgiveness as a lease modification and therefore apply paragraph 87 of IFRS 16 *Leases*. This treatment leads to an effective allocation of the loss resulting from the rent concession over the remainder of the lease term.

(b) Other lessors, apply instead the derecognition requirements of IFRS 9 to their lease receivables in these circumstances, which results in the recognition of an immediate loss equal to the receivable's carrying amount in the period when the concession is granted.

45 The AD states that: "*in the fact pattern described in the request, the lessor applies the impairment requirements in IFRS 9 to the operating lease receivable. The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect 'all cash shortfalls'. These shortfalls are the difference between all contractual cash flows due to the lessor in accordance with the lease contract and all the cash flows it expects to receive, determined using 'reasonable and supportable information' about 'past events, current conditions, and forecasts of future economic conditions'.*

46 *Therefore, the Committee concluded that, before the rent concession is granted, the lessor measures expected credit losses on the operating lease receivable in a way that reflects 'an unbiased and probability-weighted amount …', 'the time value of money', and 'reasonable and supportable information …' (as required by paragraph 5.5.17 of IFRS 9). This measurement of expected credit losses includes the lessor considering its expectations of forgiving lease payments recognised as part of that receivable.*"

47 Therefore, EFRAG considers that the IASB should clarify whether the expression "*all cash shortfalls*" used in 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.

48 In addition, EFRAG notes that this issue is closely connected with the issue *Interaction between modification, impairment, and derecognition requirements* described in Question 7 of the RFI. In this context, EFRAG notes that in case of modifications with no derecognition, when adjusting the gross carrying amount of a financial asset, one shall not consider expected credit losses (except for purchased or originated credit-impaired financial assets ('POCI')) but recognises a modification gain or loss.

49 Based on feedback from stakeholders, EFRAG notes that this issue should be addressed by the IASB with a high priority. As consequence of the COVID-19 pandemic, several European jurisdictions have introduced different types of bank holidays which have increased the application questions related to the definition of "credit losses" and related to the boundary between modification and credit risk.

50 In addition, EFRAG highlights that the AD could have wider implications than lease receivables and cause undue disruption to long-standing general accounting practices for financial assets.

Question (b)

51 In the Endorsement Advice on IFRS 9, EFRAG considered IFRS 9 was likely to result in significant costs for preparers related to implementation of IFRS 9 and ongoing costs of complying with IFRS 9. These costs were expected to be significantly higher for financial institutions than for entities in the non-financial sector.

52 In addition, EFRAG considered users of financial statements would benefit from the information about ECL being provided on a timely basis, credit quality upon initial recognition and the deterioration in credit quality over time.

53 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.

54 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)

55 IFRS 9 requires entities to recognise ECL for all debt instruments measured at amortised cost or fair value through other comprehensive income, including most intra-group loans from the perspective of the lender. Nevertheless, apart from IAS 27 *Separate Financial Statements*, IFRS Standards do not explicitly deal with separate financial statements.

56 EFRAG notes that, in practice, significant difficulties have been observed in how to calculate ECL on intra-group loans since in a number of cases for these loans:

(a) there is no experience of losses;

(b) a bank would never grant the credit without a large credit risk premium or the guarantee of a parent entity; and

(c) the maturity of the financing (especially for on-demand loans) is not in line with the expectation / intention of the controlling entity. Therefore, the assessment of the borrower's ability to redeem the loan would not provide the right reflection of the controlling entity's intention and the expected cash flows as seen from the lender.

57 Furthermore, a number of these loans may not be the result of arm's length transactions and a controlling entity generally avoids losses on intra group loans by providing for capital injections. These challenges are even more evident in relationships in which the lender has control over the borrower. In this circumstance, the parent has the ability to control the cash flows and the payment / repayment terms and has the ability to convert the loans into equity. Therefore, when the lender has such ability, the loans assume a risk profile similar to an equity instrument taking the nature of a capital contribution.

58 Additionally, in case of liquidation, in some jurisdictions in Europe, shareholders' financing in favour of the entity are subordinated to the satisfaction of the other creditors, therefore those loans become equivalent to an equity instrument.

59 EFRAG considers that ECL calculation on intra-group loans may imply a significant effort and result in immaterial figures. In many cases, intra-group loans may be "on demand", "perpetual" or "off-market" and the parent company may be willing to convert the loan into a capital contribution, if necessary.

60 Furthermore, EFRAG notes that the FASB excluded loans and receivables between entities under common control from the scope of its expected losses impairment model (ACS 326, paragraph 326-20-15-3).

61 Therefore, EFRAG encourages the IASB to consider introducing simplified rules for intra-group loans.

Joint and several guarantees

62 Another example of calculating ECL on intragroup exposures, is joint and several guarantees, where multiple entities jointly and severally provide a guarantee to another entity. The most frequent examples are the guarantees between the entities of the group, when intercompany guarantee arrangements meet the definition of financial guarantee contracts.

63 In calculating the ECLs on joint guarantees relating to loans to a group entity made by parties external to the group, each entity that is party to the joint guarantee arrangement needs to factor in the likelihood of it being called upon to make payments under the arrangement. Furthermore, entities should consider the reimbursements they expect to receive from each other.

64 A question arises how each guarantor should calculate ECL in their separate financial statements. Analysis of the legal requirements in the particular jurisdiction, the contractual agreements between the lender and the guarantors, and between the guarantors may be required to determine the rights and obligations of each party and the resulting exposure of each guarantor to expected future credit losses.

65 In the case where joint guarantees are made by the entities within the group, it may happen that the sum of individual ECLs is higher that the ECL calculated considering a single guarantor.

66 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.

Questions to Constituents – Question 2(a)

67 Do Constituents have any fundamental questions about the general approach of IFRS 9 to recognising ECL?

68 In addition to the issue reported in the EFRAG's response, are there other fact patterns for which you consider the general approach of IFRS 9 does not provide useful information about changes in credit risk and resulting economic losses?

Questions to Constituents – Question 2(b)

69 Do Constituents consider that the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected? Please explain.

70 Do Constituents consider that the costs of auditing and enforcing the application of the general approach are significantly greater than expected? Please explain.

71 From a user perspective, do Constituents consider that the benefits of the resulting information to users of financial statements are significantly lower than expected? Please explain.

72 To what extent is the issue of joint and several guarantees relevant for your entity/jurisdiction?

Question 3 – Determining significant increases in credit risk

Notes to constituents – Summary of presentation in the RFI

Background

73 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.

74 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.

75 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.

76 *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)

77 *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.*

78 *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.*

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).

EFRAG's response

Question (a)

79 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.

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

Question (b)

81 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)

82 The introduction of a collective assessment for financial assets addressed the concerns that banks may have a very large number of small exposures managed on an aggregated basis.

83 However, 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. For example, entities do not have reasonable and supportable information to calculate the percentage of loans whereby the credit risk has significantly increased since initial recognition in the way described in the illustrative example. 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.

84 The monitoring report "IFRS 9 Implementation by EU Institutions" published by EBA in November 2021 highlighted that the use of the top-down[4] approach in Europe is limited and financial institutions generally prefer to use a combination of bottom-up[5] and top-down approaches.

85 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.

Question 4 – Measuring expected credit losses

Notes to constituents – Summary of presentation in the RFI

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

(a) *an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;*

(b) *the time value of money; and*

[4] As per IFRS 9 Example 5 IE39 which refers to an assessment that can be made of a proportion of the overall portfolio that has significantly increased in credit risk since initial recognition.

[5] As per IFRS 9 Example 5 IE38 which refers to a 'bottom up' approach in which loans are identified based on a common risk characteristic.

(c) *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.*

87 *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.*

88 *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.*

89 *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.*

90 *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.*

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

(a) *Forward-looking scenarios;*

(b) *Post-model adjustments or management overlays; and*

(c) *Off-balance-sheet exposures.*

Forward-looking scenarios (Spotlight 4.1)

92 *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.*

93 *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.*

94 *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).*

95 ***Therefore, the IASB would like to understand:***

(a) ***the cause of the diversity in application in this area; and***

(b) ***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.***

96 *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)

97 *The IASB was informed about an* ***increased use of post-model adjustments or management overlays***[6]*, 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.*

98 *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.*

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

100 *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.*

101 *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

102 *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.*

103 *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*

[6] 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.

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).

104 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.

105 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

106 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)).

107 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.

108 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.

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.

EFRAG's response

Question (a)

109 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.

110 EFRAG acknowledges that a principle-based approach implies increased flexibility in how an entity would achieve the objective of impairment requirements in IFRS 9 to recognise lifetime ECL for all financial instruments for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward-looking.

111 EFRAG further notes that this increased flexibility may in some cases result in a lesser comparability of the ECL amounts between the entities due to the different models, assumptions, number of scenarios and the values assigned to risk parameters and forward-looking factors. However, from the other side it allows an entity to apply the approach most suitable for its particular circumstances and which should result in decreased complexity and increased relevance of the ECL amounts reported.

112 In the light of the above, EFRAG is of the view that the requirements for measuring ECL work as intended.

Question (b)

Forward-looking scenarios (Spotlight 4.1)

113 Paragraph 5.5.17(a) requires the estimate of ECL to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. This should be neither worst- nor best-case scenario.

114 EFRAG is aware that in practice entities most commonly use three macro-economic scenarios when estimating ECL amounts and that different entities apply different weights and probabilities to the parameters of the model. ESMA Report on the application of the IFRS 7 and IFRS 9 requirements regarding banks' expected credit losses issued in December 2021 provides detailed analysis of the various ECL modelling approaches used by financial institutions.

115 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

116 Climate-related risks may impact the expected cash flows to be received from a financial instrument and, therefore, the lender's exposure to credit losses. Borrower-specific attributes, physical risks, and transition risks, either individually or in combination, may impact expected cash flows as well as the range of potential future economic scenarios considered in measuring ECL and the lender's assessment of significant increases in credit risk.

117 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.

Questions to Constituents (preparers)

118 Do you consider that more guidance is needed on the incorporation of forward-looking scenarios in the calculation of ECL? If yes, in which areas?

Questions to Constituents (users)

119 To which extent the information about the scenarios used by the entities to estimate ECL is useful for your analysis?

120 What is the major drawback in the information provided in the disclosures to the financial statements you would like to improve?

Post-model adjustments or management overlays (Spotlight 4.2)

121 ESMA in its December 2021 report (see above) mentioned increased use of the post-model adjustments (also referred to as management overlays or top-level adjustments) by financial institutions as a result of COVID-19 pandemic. The level and granularity of disclosures of the effect of these adjustments varied significantly between entities.

122 EFRAG notes that the use of post-model adjustments as such is not prohibited by IFRS 9 and that the extent of their use can vary depending on the model used to measure ECL, complexity of the financial instruments and management expectations regarding the development of the macro-economic factors.

123 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.

124 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)).

125 Please refer to Question 9 of the RFI for the EFFRAG detailed suggestions for improving the disclosure requirements.

Questions to Constituents (users)

126 Could you provide examples where the use of post-model adjustments or management overlays significantly reduced the usefulness of information provided to users of financial statements?

127 Do you consider that existing disclosure requirements of IFRS 7 could be improved to provide more relevant information? How would you improve it?

Question to Constituents (preparers)

128 Does your entity use post-model adjustments or management overlays when modelling ECL? What is the reason for their use and the impact on overall ECL amounts in the financial statements?

Off-balance-sheet exposures (Spotlight 4.3)

Loan commitments (medium priority)

Scope

129 EFRAG notes that most credit card facilities and most retail overdrafts are generally considered to be in scope of the exception of paragraph 5.5.20 of IFRS 9. However, EFRAG was informed that the treatment of corporate overdrafts and similar facilities remains unclear. The problem partly arises from the guidance in paragraph B5.5.39(c) which describes management on a collective basis as a characteristic that revolving facilities in the scope of the exception "generally have", rather than are required to have.

130 As a result, some entities consider that "management on a collective basis" is a determining factor and therefore many of their corporate facilities are outside the scope of the exception because they are managed on an individual basis. Other entities consider that facilities that are individually managed are still in the scope of the exception.

Interaction with modification and derecognition

131 EFRAG notes that interaction of the period over which to measure ECL with general derecognition principles of IFRS 9 for the revolving facilities also creates some application challenges.

132 For example, it is unclear whether the existence of a contractual life and / or the lender's ability to revise the terms and conditions of the facility based on periodic credit reviews, would be regarded as triggers for derecognition and so would also limit the life of the facility for the purposes of ECL measurement. It is unclear how to determine when changes are sufficiently significant to result in a derecognition of the original facility and recognition of a new facility.

IASB educational video

133 In May 2017 the IASB issued a webcast titled "*IFRS 9 Impairment: The expected life of revolving facilities*". The key messages provided were:

(a) The expected life of the portfolio will be limited by the period to the next credit review for the facilities that are expected to be cut. This is because the expected life can only be reduced to the next review date to the extent that mitigation actions are expected to occur. It is not necessary to know in

advance which facilities will be cut. Also, the expected life of the facilities to be cut can be shorter than the time to the next review.

(b) The expected life of the remaining facilities will be bounded by when they are expected to default or to the point at which the facility is no longer used by the customer.

(c) The portfolio needs to be segmented into groups of loans with similar credit and payment expectations to determine its expected life.

(d) If the entity expects, based on past experience, to cut the facility only partially, by reducing the limit, then the life of the facility will be cut only for the portion of the facility that is expected to be withdrawn.

134 EFRAG notes that the above criteria are not reflected in the current version of IFRS 9.

Diversity in practice

135 EFRAG notes that diversity in practice exists in relation to:

(a) 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;

(b) SICR and resulting impact on ECL calculation dependent on the application of the modification and derecognition criteria for revolving credit facilities;

(c) 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 suggestions

136 EFRAG suggests to the IASB:

(a) To clarify the scope of application of paragraph 5.5.20 exception, including what is meant by "managed on a collective basis".

(b) 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.

(c) To include guidance and the key messages provided by the IASB educational video in IFRS 9.

Questions to Constituents

137 Please describe the types of financial instruments (and their characteristics) that cause significant challenges to apply the exception in paragraph 5.5.20? Are they managed on a collective basis?

138 Do you think that interaction of the life of revolving credit facilities with modification and derecognition requirements of IFRS 9 needs clarification? If yes, in which areas?

139 Do you think it would be useful to include guidance and the key messages provided by the IASB educational video in IFRS 9?

Financial guarantee contracts and other credit enhancements (medium priority)

Integral vs non-integral

140 Paragraph B5.5.55 of IFRS 9 states: *"For the purposes of measuring expected credit losses, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognised separately by the entity…"*.

141 EFRAG notes the challenges with interpretation of what constitutes *"part of the contractual terms"*. This issue was addressed by the IFRS Transition Resource Group for Impairment of Financial Instruments ('ITG') at its meeting in December 2015, more specifically whether the credit enhancement must be an explicit term of the related asset's contract for it to be considered in the measurement of ECL, or whether other credit enhancements that are not recognised separately can also be taken into account.

142 However, the ITG discussion does not answer the question of how to interpret when a financial guarantee is "integral to the contractual terms" when it is not mentioned in the contractual terms of the loan.

143 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

144 If the credit enhancement is considered integral to the loan, an entity includes the cash flows expected from it in the measurement of ECL and the cost of the guarantee is treated as a transaction cost and included in the calculation of EIR. If it is assumed that the guarantee covers effectively 100% of cash shortfalls that occur on the guaranteed loan, at the initial recognition of the loan there are no (neglectable) effects in the statement of profit or loss.

145 If the credit enhancement is required to be recognised separately by IFRS Standards, an entity cannot include the cash flows expected from it in the measurement of ECL. This means that an entity recognises the amount of 12-months ECL in the statement of profit or loss at the initial recognition of the loan. To offset this amount, an entity may choose to book an asset equivalent to the 12-months ECL value, so the total amount at which the guarantee is initially recorded in the financial statements will exceed the fair value of the guarantee (amortised cost equals to the premium paid plus a reimbursement asset equivalent to the 12-months ECL).

146 EFRAG notes significant diversity in practice with how the 12-months ECL reimbursement asset is recognised. In addition, if the 12-months ECL reimbursement asset is not recognised, the accounting of integral and non-integral credit enhancements results in different impacts on the statement of profit or loss (while the economic substance of the transaction is the same).

147 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

148 If a financial guarantee contract falls into the scope of IFRS 9, the standard requires the issuer to initially record the guarantee at its fair value, and this is likely to be equal to the premium received. After initial recognition, the issuer shall subsequently measure it at the higher of: (i) the amount of the loss allowance determined in accordance with the IFRS 9 requirements, and (ii) the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers* (IFRS 9, paragraph 4.2.1(c)).

149 The above requirements, result in recognising a credit provision by an issuer of a financial guarantee only when the amortised cost of a liability becomes less than the IFRS 9 ECL allowance. No ECL allowance is recognised at initial recognition of the financial guarantee but only when the credit risk of the underlying asset increases significantly). As a result, the impact on the profit or loss for the issuer of a financial guarantee is quite different from a hypothetical loan issuer though the credit risk to which they are both exposed is the same.

150 In cases where the premium is paid overtime, entities should select an accounting policy to recognise or not a separate receivable for the future premiums not yet due considering implied options. Based on the chosen policy, the impacts for the accounting for the financial guarantee might be significantly different. According to paragraph 4.2.1(c) of the IFRS 9, if the issuer does not recognise the receivable, at initial recognition of the guarantee it should record the 12-months ECL on the underlying (premium receivable) asset. Therefore, the accounting differences arise depending on how the premium is paid (while the economic substance is almost the same).

151 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.

152 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.

Questions to Constituents (preparers)

153 To what extent is the issue of financial guarantee contracts and other credit enhancements relevant for your entity?

154 Could you quantify the impact on a profit and loss statement if a financial guarantee is integral or non-integral to the contract?

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

Notes to constituents – Summary of presentation in the RFI

155 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.

156 *Under the simplified approach an entity:*

(a) *is required to recognise lifetime ECL for trade receivables or contract assets without a significant financing component; and*

(b) *has an accounting policy choice to recognise lifetime ECL for trade receivables or contract assets with a significant financing component and lease receivables.*

157 *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.*

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.

EFRAG's response

Question (a)

158 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.

159 The practical expedient in paragraph B5.5.35 allows such entities to use a provision matrix with historical loss rates to calculate ECL on trade receivable balances, which further simplifies the ECL calculation.

Question (b)

160 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. For detailed discussion, please refer to Question 2 of the RFI.

161 EFRAG is not aware that the costs of applying the simplified approach are significantly higher and that the benefits are lower than expected.

Question to Constituents

162 Do you consider that simplified for trade receivables, contract assets and lease receivables achieve their objective of decreasing the burden for preparers without hindering the usefulness of the information provided to users?

Question 6 – Purchased or originated credit-impaired financial assets

Notes to constituents – Summary of presentation in the RFI

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

- (a) *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;*
- (b) *recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance; and*
- (c) *recognise the amount of the change in lifetime expected credit losses as an impairment gain or loss in the statement of profit or loss.*

164 *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.*

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.

EFRAG's response

165 Based on feedback from stakeholders, 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.

Application matters on POCI's requirements (medium priority)

166 EFRAG has been informed that the scope of the POCI category needs to be further clarified. Currently, financial institutions use different approaches to accounting for restructured assets due to the difficulties of the debtor. Some financial institutions derecognise the restructured financial assets and recognise new assets which are considered as POCI. Other financial institutions do not derecognise the restructured financial assets and continue to recognise them in stage three. The two accounting approaches result in fundamentally different impacts on profit or loss statement, on the measurement of the related financial assets and ECL.

167 EFRAG considers that clarification would be helpful on when the financial assets newly recognised after restructuring can be considered as POCI.

168 The current POCI requirements are considered to be appropriate for financial institutions that manage these financial assets as a core business. However, in other cases, for example, where the occurrence of POCI financial assets is accidental to the business model, it is argued by some that the costs (IT and operational costs of maintaining different accounting for insignificant number of POCI assets) exceed the benefits.

169 EFRAG is aware of the challenges that the IASB would face in defining what "accidental to the business model" means with a principle-based guidance.

170 Nonetheless, EFRAG acknowledges some application matters which highlight the need for more clarity on the POCI's requirements. In particular, it would be useful to have more guidance on:

(a) 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);

(b) 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

(c) how the modification and derecognition requirements interact with the POCI requirements. Refer to Question 7 for the detailed description.

171 EFRAG has identified this as a medium priority issue.

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

Notes to constituents – Summary of presentation in the RFI

172 *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.*

173 *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****.*

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.

EFRAG's response

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

174 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).

175 Furthermore, EFRAG notes that in July 2022, considering the feedback received during the PIR of IFRS 9 – *Classification and Measurement*, the IASB decided to add a project to its research pipeline to clarify the requirements in IFRS 9 for modifications of financial assets and liabilities and applying the effective interest method. Several application questions with potential effects in ECL amounts have been identified by the IASB Staff in this area, reinforcing the need of clarification.

176 Based on feedback from stakeholders, EFRAG notes that this issue should be addressed by the IASB with a high priority.

177 The need for clarification on the interaction between modification, impairment, and derecognition requirements is also highlighted by the existence of several individually not relevant issues (described below) touching different aspects of this interaction.

Presentation of modification gains / losses vs impairment

178 Paragraph 82(ba) of IAS 1 *Presentation of Financial Statements* requires that the profit or loss section or the statement of profit or loss shall include as a separate line-item impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9.

179 EFRAG notes that there are no requirements for presenting modification gains or losses as separate line item in IAS 1. In addition, EFRAG notes that paragraph 5.5.2 of IFRS 9 states that ECL includes the amounts resulting from the significant increase in credit risk due to for example modification or restructuring.

180 According to paragraph 5.4.3 of IFRS 9 "*when the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss*".

181 Appendix A of IFRS 9 defines a modification gain or loss as the amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cash flows.

182 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.

183 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

184 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 a financial asset in its entirety or a portion thereof (paragraph B5.4.9 of IFRS 9).

185 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.

186 In the views of some, the further impairment loss that occurs should be presented as a derecognition loss in profit or loss with a credit directly to the gross carrying amount. Others consider the additional impairment loss should first be presented as an addition to the allowance which is then applied against the gross carrying amount.

187 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

188 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.

189 In case lifetime ECL is recognised on a loan that is restructured, and the subsequent change in contract characteristics leads to derecognition, then the new loan (if it is not considered POCI) is being recognised with a 12-months ECL allowance. This decrease in impairment allowance from lifetime to 12-months

ECL is considered by some as counterintuitive to the underlying economics (i.e., the deteriorating economics that lead to a restructuring). At the same time others see that the fair value of the newly recognised loan already reflects the reduction in estimated future cash flows and, therefore, 12-months ECL allowance is warranted.

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

191 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).

Question to Constituents

192 In addition to the issue reported in the EFRAG's response, are there other fact patterns for which you consider there are specific questions about how to apply the impairment requirements alongside other requirements? Please explain.

Question 8 – Transition

Notes to constituents – Summary of presentation in the RFI

193 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.

194 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[7] and the 30 days past due rebuttable presumption in paragraph 5.5.11 of IFRS 9[8]); 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.*

195 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

[7] 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.

[8] 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.

between the ending impairment allowances in accordance with IAS 39 and the opening loss allowances in accordance with IFRS 9).

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?

EFRAG's response

196 In its endorsement advice of IFRS 9 (September 2015), EFRAG noted that upon transition to IFRS 9 there is no requirement to restate the financial information for previous periods, this will help contain the costs for preparers in implementing IFRS 9. EFRAG acknowledges that most of the entities did not restate but presented comparatives on the transition year between IAS 39 and IFRS 9 and no issues explicitly arose from that exercise. EFRAG also notes that many entities applied practical expedients and rebuttable presumptions to their financial assets existing at the date of transition. EFRAG is not aware about any unexpected effects of applying transition requirements.

197 In its endorsement advice EFRAG noted that the loss of comparability upon transition may be significant as potentially a large proportion of financial instruments may end up with an absolute rather than relative assessment. Such a situation will persist until derecognition of those instruments.

198 However, EFRAG further assessed that the balancing effect of operationality of the model provides adequate compensation.

199 EFRAG reminds that the IFRS 9 endorsement advice advocated implementing the insurance contracts standard (which later became IFRS 17 issued in May 2017 and the Amendments to IFRS 17 issued in June 2020) and IFRS 9 at the same time. This was achieved through the temporary exemption from applying IFRS 9 (Applying IFRS 9 with IFRS 4 *Insurance Contracts*, issued in September 2016 – prolonged by Extension of the Temporary Exemption from Applying IFRS 9 in June 2020), but without aligning the transition measures of both standards. To amend this the IASB issued in July 2021 the ED *Initial application of IFRS 17 and IFRS 9 – Comparative information*.

Questions to Constituents

200 Did you have any unexpected effects from applying transition requirements retrospectively?

201 Did you apply any of the transitional reliefs proposed by the IASB? Which ones and why? Did the benefits from applying the reliefs exceed the costs?

Question 9 – Credit risk disclosures

Notes to constituents – Summary of presentation in the RFI

Background

202 *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.*

203 *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.*

204 *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)

205 *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.*

206 *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.*

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.

EFRAG's response

Question (a)

207 EFRAG notes that IFRS 9 sets out a framework for determining the amount of ECL. However, it does not set bright lines or a mechanistic approach to determining when lifetime losses are required to be recognised, nor does it dictate the exact basis on which entities should determine forward-looking scenarios to consider when estimating ECL.

208 Therefore, judgements and estimates would need to be applied. The judgements and estimates are based on multiple sources of information combining internal and external data including forward-looking and macroeconomic information.

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

210 On the one hand, EFRAG has been informed that the level of disclosures provided is not always sufficient to understand the high levels of uncertainty arising from the level of judgement required by IFRS 9 for recognition of ECL. Stakeholders indicated that analysis of banks' credit risk disclosures showed a significant diversity in practice with different levels of detail about the assumptions taken, credit risk management policies, methodologies and models applied. The structure of disclosures also varied significantly. It was also noted that often the disclosures were not clear enough on how the ECL figures were derived and excessively influenced by the regulatory framework in each jurisdiction.

211 On the other hand, EFRAG has also been informed that IFRS 7 disclosure objectives, including the disclosure requirements, provide an adequate basis for entities to disclose credit risk. These stakeholders have indicated that the regulatory institutions have an important role in ensuring comparability of information.

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

213 Taking the above into consideration and considering what was mentioned in Question 4, 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)

214 In EFRAG's endorsement advice on IFRS 9, it was stated that:

(a) the implementation costs of complying with the disclosure requirements will impose a significant burden on preparers. Regarding ongoing costs for impairment, it was stated that for both financial and non-financial institutions, ongoing costs will be incurred in connection with obtaining calculation inputs and improving their quality over time.

(b) EFRAG assessed that the one-off costs will be significant for users (which included the impact of the impairment requirements). In addition, it stated that analyses of all the information available was likely to result in ongoing costs for users of financial statements. EFRAG's overall conclusion on IFRS 9 was that IFRS 9 was not likely to result in significant costs for users after the transition.

(c) In terms of benefits, preparers would benefit from the fact that existing credit risk management processes are capable of being leveraged to fulfil the IFRS 9 requirements. Also, users will be assisted by comprehensive disclosures that will help them understand the models, assumptions and inputs used to recognise ECL. They will also find information about the absolute level of credit risk of financial instruments.

215 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.

Questions to Constituents

216 Do you consider that additional credit risk disclosures are needed to improve the relevance of information to users of financial statements?

If so, please list what (those) additional disclosure requirement(s) you consider is (are) needed, explain why, and if possible, provide supporting evidence.

217 With what priority (low, medium, or high) do you consider the IASB should address this topic? Please explain.

Question 10 – Other matters

Notes to constituents – Summary of presentation in the RFI

218 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.*

> **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?**

EFRAG's response

Question (a)

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

Question (b)

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