

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

FRS 9 – Analysis of issues identified through initial feedback Cover Note

Objective

- 1 The objective of this session is for EFRAG to be updated on the views of EFRAG FIWG and IAWG members on the issues to be discussed in the Post Implementation Review of IFRS 9.
- 2 EFRAG FIWG and members discussed these issues in their meetings of 8 and 9 September respectively. These views expressed in these meetings are integrated with EFRAG FIWG views expressed earlier.

Background

- 3 The effective date of IFRS 9 was set as annual reporting periods beginning on or after 1 January 2018. Insurers and EU financial conglomerates have the possibility to defer the application date of IFRS 9 till 1 January 2023 (subject to fulfilling particular conditions).
- 4 In October 2020, the IASB decided to begin the PIR of the IFRS 9 classification and measurement requirements, but not to begin the PIR of the Standard's impairment and hedge accounting requirements.
- 5 During February – March 2021, the EFRAG Secretariat consulted EFRAG working groups (Academic Panel, FIWG, IAWG, User Panel, CFSS) and had an exchange with the IFRS 9 Task Force of Accountancy Europe. This consultation has allowed to prepare a first comprehensive list of issues that have been reported to the IASB Staff, including at the ASAF meeting in March 2021.
- 6 On 9 June 2021, the EFRAG Board decided that the future EFRAG response to the Request for Information (RFI) on IFRS 9 *Financial Instruments* should include views about the technical merits of the *key* issues reported. The remaining issues are to be reported to the IASB without an accompanying assessment.
- 7 The EFRAG Board further decided that the technical assessment should be focused on providing indications as to whether standard setting is considered necessary to solve the issue, without providing indications of the possible standard setting solution itself.
- 8 When assessing the technical merits, to the extent possible, the EFRAG response to the RFI should also provide indications of the type of standard setting activity needed (e.g. amendments to the standard, educational material).
- 9 The EFRAG Board suggested the following indicators on how to identify key issues and to consult also on these indicators and on the resulting prioritisation of the issues:

IFRS 9 PIR – analysis of issues identified through initial feedback – Cover Note

- (a) Issues where the current requirements lead to unintended consequences;
 - (b) Issues where there is an inconsistency or lack of clarity in IFRS 9; and
 - (c) Issues that are newly emerging, including issues with a possible relevance for European Public Good (such as the recycling of OCI for equity instruments and the treatment of green bonds).
- 10 It was noted that for some issues EFRAG has already developed views and it would be sufficient to repeat the existing positions. This relates to:
- (a) Recycling the changes in FV accumulated in OCI for equity instruments; and
 - (b) FVTPL treatment for equity-type instruments (e.g. units of funds).
- 11 The issue on applying the SPPI test to sustainable finance products was seen as an implementation issue rather than that the current guidance is perceived as unclear.
- 12 The issues described in paragraphs 10 and 11 are known to be prevalent in Europe (as confirmed by recent consultations). For the other issues, estimating prevalence is generally hard in practice, therefore the EFRAG Secretariat will rely on the experience of EFRAG TEG members (especially those with an audit background) and the EFRAG TEG working groups to identify whether some issues are prevalent or not. Preliminary indications of prevalence will also be subject to the consultation.
- 13 During its meeting of 14-15 July 2021 EFRAG TEG considered the views from EFRAG FIWG. It was suggested to split the list of issues between those that require an urgent treatment and those that can be addressed in a later stage. EFRAG TEG's views on the topics are summarised as follows:

N°	Topic	EFRAG TEG View (summary)
(2)	Sustainable finance – SPPI test	Prevalent issue in Europe. To be reported to the IASB in the response to the RFI.
(3)	SPPI – use of administrative rates	Prevalent issue in Europe. To be reported to the IASB in the response to the RFI, in connection with a possible broader discussion whether the borderline between amortised cost and fair value is still considered appropriate. EFRAG TEG members were divided whether this issue should be addressed through standard setting or via educational material.
(5)	Business model – sales – COVID 19	It would be very difficult to request standard setting for this issue. More a stress-test situation for the “held to collect and sale” criterion for HTC than an issue per-se. Need to re-discuss the topic.
(6)	Contractually linked instruments – non-recourse	To be reported to the IASB in the response to the RFI. IFRS 9 leaves structuring opportunities.
(20)	Supply chain financing – reverse factoring	To be reported to the IASB in the response to the RFI. Setting disclosure requirements (as the IASB is proposing) would not solve the issue.
(12)	Modification of cash flows	Prevalent issue in Europe (e.g. forbearance practices in banking). To be reported to the IASB in the response to the RFI. Possibly lower priority, however to be reported as IFRS 9 lacks guidance.

IFRS 9 PIR – analysis of issues identified through initial feedback – Cover Note

(21)	Financial guarantees	To be reported to the IASB in the response to the RFI. Possibly lower priority, however to be reported as IFRS 9 lacks guidance.
(12)	Accounting for TLTRO III	Not to be included as a separate issue (rather an example of the issue of modification)

- 14 In addition, one TEG member suggested to discuss the issue of FVOCI business model (bonds), as in his opinion the category FVOCI for financial assets impairs the accounting for debt instruments.

Questions for EFRAG TEG

- 15 Does EFRAG TEG agree with the comments from EFRAG FIWG and IAWG members as presented in paper 01-02?

Agenda Papers

- 16 In addition to this cover note, the following agenda papers are being made available:
- (a) Agenda paper 01-02 – IFRS 9 PIR – Views provided by EFRAG FIWG and IAWG members;
 - (b) Agenda paper 01-03 – Analysis of issues identified through initial feedback;
 - (c) Agenda paper 01-03A – Detailed background on Contractually linked instruments – non-recourse;
 - (d) Agenda paper 01-03B – Detailed background on FVOCI business model; and
 - (e) Agenda paper 01-03C – Interaction of green/sustainable finance and IFRS 9 requirements.