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Post Implementation Review of IFRS 9
Cover Note

Objective

1 The objective of this session is to obtain early input from EFRAG CFSS members on the EFRAG draft comment letter to the Request for Information (RFI) on the *Post-Implementation Review of IFRS 9 – Classification and Measurement*.

Background

2 EFRAG published its draft comment letter ('the DCL') to the Request for Information (RFI) on the *Post-Implementation Review of IFRS 9 – Classification and Measurement* on 8 November 2021. Comments are requested by 14 January 2022.

Main messages expressed in the DCL

3 EFRAG considers that the combination of the cash flow characteristics of the assets together with the assessment of the entity's business model has proved to generally provide an appropriate basis to align the measurement of financial instruments with how they are managed by the entity. However, there are some areas that require attention.

4 In EFRAG's view, the IASB should re-evaluate whether the classification and measurement principles and the accompanying guidance in IFRS 9 have kept up with e.g., recent market developments.

5 EFRAG has been made aware of some circumstances where the application of the business model concept is challenging. However, EFRAG does not consider that further standard-setting activity is needed, as overall the existing IFRS 9 requirements result in appropriate outcomes.

6 EFRAG considers that the effective interest rate method generally provides useful information. EFRAG notes that IFRS 9 includes scope limitations or corrections to the method for particular financial instruments. EFRAG also notes that more and more financial instruments incorporate clauses that may affect the future contractual interest cash flows when being fulfilled (or when they fail to be fulfilled) by the reporting entity or a third party.

7 EFRAG has identified a number of issues that deserve standard-setting activities. These issues are (in order of priority):

(a) Sustainable finance – SPPI test;

(b) Recycling changes in FV accumulated in OCI for equity instruments;

(c) Treatment of equity-type instruments;

(d) Supply-chain financing – reverse factoring;

(e) Modification of contractual cash flows;

(f) Contractually linked instruments – non-recourse;

(g) Factoring of trade receivables;

(h) SPPI – use of administrative rates; and

(i) Financial guarantees.

8 In particular, for three issues particular attention is being asked as part of the comment letter:

(a) Application of the SPPI test to sustainable finance products: it is expected that this issue will be so pervasive in Europe that, in EFRAG's view, it should be lifted from the PIR process and treated as an urgent issue separately, so that the IASB can start working on it without waiting for the completion of the RFI process. EFRAG confirms its commitment and willingness to assist the IASB in the assessment of this issue.

(b) EFRAG considers the IASB should expeditiously review the non-recycling treatment of equity instruments within IFRS 9, testing whether the Conceptual Framework would justify the recycling of FVOCI gains and losses on such instruments when realised. If recycling was to be reintroduced, the IASB should also consider the features of a robust impairment model, including the reversal of impairment losses.

(c) EFRAG supports that similar fact patterns should be treated similarly, and notes that some mutual funds and puttable instruments, respond to movements in market variables in a similar way to equity instruments even though these do not meet the definition of an equity instrument under IAS 32 *Financial Instruments: Presentation*. EFRAG considers that any changes to the accounting for these instruments, aimed at allowing for equity and equity-type instruments to be treated similarly for accounting purposes, would require careful consideration. This would imply that equity-type instruments would be allowed to be accounted for at FVOCI, what is currently not the case.

Agenda papers

9 In addition to this cover note, agenda paper 11-02 EFRAG draft comment letter to the RFI on the *Post-Implementation Review of IFRS 9* has been provided for this session.

Question to EFRAG CFSS members

10 Do EFRAG CFSS members have early comments to the views expressed in the DCL as well as inputs to the questions raised? Please explain.