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IFRS 9 – PIR *Expected Credit Losses* – early collection of inputs Cover Note

Objective

- 1 The objective of this session is to collect EFRAG FR TEG-CFSS members' views on the list of potential issues to be raised in EFRAG's future draft comment letter ('DCL') in response to the forthcoming IASB PFI on IFRS 9 *Expected Credit Losses*.

Background

- 2 The IASB plans to issue the RFI of IFRS 9 *Expected Credit Losses* in the second half of 2022. In anticipation of this, the EFRAG Secretariat is reaching out to its constituents and working groups to collect issues that should be raised during this process.
- 3 Preparing for the DCL, the EFRAG Secretariat will, for the issues that are now being identified, based on them being deemed prevalent issues in Europe, make a ranking as (1) deserving standard setting activity (high, medium or low priority), (2) deserving standard interpretation activity (high, medium or low priority), (3) educational guidance material needed, (4) nor further action or (5) prudential regulatory issue.
- 4 The EFRAG Secretariat has held several meetings with EFRAG working groups and constituents to collect potential issues for its DCL to the IASB RFI on IFRS 9 *Expected Credit Losses*.
- 5 The following preparatory meetings have been organised or are still expected:

EFRAG working group – constituents	Meeting date
Accountancy Europe	12 April 2022
ESBG	27 April 2022
Large audit firms	5 May 2022
EFRAG FIWG	10 May 2022
EFRAG IAWG	12 May 2022

EFRAG Academic Panel	10 June 2022
EFRAG FR TEG-CFSS	28 June 2022
EFRAG User Panel	7 July 2022
EBF	To be confirmed
ECB	To be confirmed

- 6 As a result of these meetings the following issues have so far been identified (they are presented in detail in Agenda Paper 15-02). Please note that the issues raised and presented are raw material at the current stage of working. Some issues are entirely directed to the application of IFRS 9 while some may relate to interaction with prudential regulations and supervision. In this case the issue is not in the scope of the IASB remit. We expect that such items later in our CL process might be presented in a separate appendix, as important evidence but out of the scope of the RFI.
1. Credit enhancements and financial guarantee contracts – diversity in practice;
 2. Presentation of modification gains / losses vs impairment;
 3. Different treatments under regulatory and IFRS 9 requirements;
 4. Discount rate to be used for ECL in case the asset is floating rate based;
 5. Simplified rules for corporates;
 6. Boundary issues of ECL application to leases (IFRS IC Tentative Agenda Decision of March 2022);
 7. Revolving credit facilities;
 8. Calculating ECL on intercompany loans;
 9. Contractually Linked Instruments (CLI and SPEs investments) – definition of default;
 10. Timing to move to stage 3 (next reporting date or during the reporting period);
 11. Write-offs – diversity in practice;
 12. Issue Reliability of forward-looking information;
 13. Interaction between derecognition and staging;
 14. Purchased or credit-impaired financial assets (POCI), alternative treatment of ECL;
 15. Procyclicality of IFRS 9 ECL model;
 16. Portfolios of high credit quality exposures;
 17. Credit risk and portfolio performance;
 18. Exposures in Stage 1 and Stage 2 simultaneously; and
 19. Understandability and comparability of disclosures.
- 7 These issues have different degree of prevalence which is not assessed at this stage.
- 8 In the agenda paper 15-02 – IFRS 9 PIR ECL - Initial collection of views the EFRAG FR TEG-CFSS members will be asked if the identified issues are pervasive in Europe and if they think that the issues deserve IASB activity, and if so what kind of activity.

Questions for EFRAG FR TEG-CFSS members

- 9 Does EFRAG FR TEG-CFSS members have any comments on the issues raised?
- 10 Are EFRAG FR TEG-CFSS members aware of any other issues which should be included into the PIR?

Next steps

- 11 The EFRAG Secretariat will continue collecting the issues in the coming months and having discussions with EFRAG working groups and constituents to select the issues to be included in its DCL during the 2nd half of 2022.

Agenda Papers

- 12 In addition to this cover note, agenda paper 15-02 – *IFRS 9 PIR ECL - Initial collection of views – Issues paper* – has been provided for the session.