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PIR IFRS 9 - Impairment Cover Note

Objective

- 1 The objective of the session is to inform EFRAG FR TEG-CFSS members about the IASB decision to start the PIR of impairment requirements in IFRS 9 and to collect their views on the overall experience of applying IFRS 9 in their jurisdiction and prioritise matters they think should be considered by the IASB.

Background of the IASB project

- 2 The IASB decided to start the Post-implementation Review of impairment requirements in IFRS 9 and is starting by collecting information to identify the issues to be addressed. After the initial collection of information planned for the Q4 2022 – Q1 2023, the IASB expects to publish the *Request for Information* in the 1st half of 2023.
- 3 The PIR process will consist of two phases:
 - (a) **Phase 1** - identify matters to be examined;
 - (b) **Phase 2** – consider feedback received.
- 4 The IASB identified the following topic areas of impairment requirements to be covered:
 - (a) General approach to impairment;
 - (b) Determining significant increases in credit risk;
 - (c) Measurement of ECL;
 - (d) Credit-impaired assets on initial recognition;
 - (e) Simplified approach for trade in lease receivables;
 - (f) Loan commitments and financial guarantees;
 - (g) Disclosures; and
 - (h) Transition.
- 5 The IASB reminds that the objective of PIR is to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.
- 6 In order to make this assessment the IASB needs to know whether there are any:

- (a) **Fundamental questions** about the core objectives or principles - their clarity and suitability - that indicate that the new requirements are not working as intended; or
- (b) **Specific application questions** which not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed, if they meet the criteria for taking further action.

Background of the EFRAG discussions

- 7 In anticipation of the publication of RFI, EFRAG reached out to its constituents and working groups to collect issues that they think should be raised during this process. In April-July 2022, the EFRAG Secretariat has held several meetings with EFRAG working groups and came up with the initial list of 19 issues with different degree of prevalence which is planned to be assessed and prioritised at a later stage.
- 8 These issues were discussed with EFRAG FR TEG-CFSS members at the June 2022 meeting.

Questions for EFRAG FR TEG-CFSS

- 9 Are there fundamental questions (i.e., ‘fatal flaws’) on the clarity and suitability of the core objectives or principles in the impairment requirements?
 - (a) Do the requirements achieve its objective of providing useful information about changes in credit risk and timely recognition of expected credit losses?
 - (b) Have the requirements resolved the issues they were designed to address?
- 10 Are the benefits to investors arising from applying the requirements significantly lower than expected?
 - (a) Is the resulting information useful to investors?
 - (b) Are the requirements and application guidance capable of being applied consistently?
 - (c) If diversity in practice exists, what is the cause and what is the effect?
- 11 Are the costs of applying some or all of the requirements and auditing and enforcing their application significantly greater than expected?
 - (a) Do actual effects differ from the expected effects set out in the Effects Analysis?
 - (b) Have there been any significant effects (positive or negative) that were not identified in the Effects Analysis?
 - (c) Is there a significant market development since requirements were issued causing diversity in practice?
- 12 Considering these questions and the PIR objective, are you aware of matters that should be examined by the IASB in Phase 1 of this PIR?

Next steps

- 13 The IASB is planning to conduct initial information gathering (outreach) in Q4 2022 - Q1 2023 and issue RFI in H1 2023.
- 14 The EFRAG Secretariat will closely monitor the developments of the IASB project and continue discussions with EFRAG working groups and constituents to select and prioritise the issues to be included in its DCL.

Agenda Papers

- 15 In addition to this cover note, agenda paper 08-02 – *IASB AP3 PIR IFRS 9 Impairment – EFRAG TEG-CFSS 22-09-14 – for background only* – has been provided for the session.