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## PIR IFRS 9 *Classification and Measurement* Cover Note

### Objective

- 1 To provide the EFRAG FR TEG members with an update on the recent IASB discussions on various aspects of the *Amendments to the Classification and Measurement of Financial Instruments* project (former *Contractual Cash Flow Characteristics of Financial Assets*) and to obtain the EFRAG FR TEG members' views on the topics of:
  - (a) the sweep issue and the IASB tentative decisions in respect of contractually linked instruments ('CLI');
  - (b) the accounting policy choice for derecognition of financial liabilities;
  - (c) the due process steps performed by the IASB on the project.
- 2 The questions for this session will be asked in the relevant Agenda Papers.

### Background of the IASB project

- 3 In May 2022, in the context of the post-implementation review (PIR) of IFRS 9 *Financial instruments – Classification and Measurement*, the IASB decided to start a standard-setting project to clarify particular aspects of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics (i.e., the 'solely payments of principal and interest' ('SPPI') requirements) and to provide further guidance relating to financial assets with non-recourse features contractually linked instruments (CLIs) ([AP 3](#)).
- 4 In June 2022, the IASB discussed the objective, scope and indicative timetable for the project ([AP 16](#)). The objective is to make clarifying amendments to the application guidance in paragraphs B4.1.7 to B4.1.26 of IFRS 9 to enable the consistent application of the SPPI requirements and to consider whether additional disclosure requirements are needed<sup>1</sup>.
- 5 In July 2022, the IASB had initial discussions on the IASB staff's preliminary analysis on the concepts of basic lending arrangement and nature of a contingent event ([AP 16A](#)). In addition, the IASB had initial discussions on the IASB staff analysis of financial assets with non-recourse features and contractually CLIs ([AP 16B](#)).
- 6 In September 2022, the IASB tentatively decided in line with the IASB staff's recommendations to clarify the contractual cash flow characteristics requirements in IFRS 9 ([AP 16A](#)), the application of the SPPI requirements in IFRS 9 to financial

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<sup>1</sup> EFRAG FIWG, EFRAG IAWG, EFRAG FR TEG-CFSS and FR TEG discussed the objective, scope and timetable of the project at their meetings on 21, 23, 28, and 29 June 2022 respectively.

## *Amendments to Classification and Measurement – Cover Note*

assets with non-recourse features and the requirements in IFRS 9 for contractually linked instruments – CLIs ([AP 16B](#))<sup>2</sup>.

- 7 In its October 2022 meeting, the IASB agreed with the IASB staff's recommendations for proposed disclosure requirements and relating to the transition and effective date ([AP 16](#))<sup>3</sup>.
- 8 The IASB tentatively decided to propose adding a requirement to IFRS 7 for entities to disclose for each class of financial assets and financial liabilities not measured at fair value:
  - (a) a qualitative description of contractual terms that could change the timing or amount of contractual cash flows, including the nature of any contingent events;
  - (b) quantitative information about the range of changes to contractual cash flows that could result from these contractual terms; and
  - (c) the gross carrying amount of financial assets and amortised cost of financial liabilities subject to these contractual terms.
- 9 The IASB also tentatively decided to propose that an entity should apply the clarifying amendments to IFRS 9 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that the entity would not be required to restate comparative information.
- 10 In addition, the IASB considered feedback on the requirements in IFRS 9 relating to equity instruments for which an entity has elected to present fair value changes in other comprehensive income (OCI) ([AP3A](#)). It decided to make no changes to those requirements. However, the IASB tentatively decided to amend paragraph 11A of IFRS 7 *Financial Instruments: Disclosures* to require disclosure of:
  - (a) the aggregated fair value of equity investments for which the OCI presentation option is applied at the end of the reporting period; and
  - (b) changes in fair value recognised in OCI during the period.
- 11 Furthermore, the IASB considered possible standard-setting options to respond to concerns raised about the potential outcomes of applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers (the IFRS IC TAD on electronic cash transfers). The IASB tentatively decided to develop an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met ([AP3C](#)).
- 12 Finally, the IASB has expanded the original scope of the CCFC project and changed its name to "*Amendments to the Classification and Measurement of Financial Instruments*". The related Exposure Draft is now expected in the first half of 2023 and will also include the amendments related to the accounting policy choice for derecognition of financial liabilities (see agenda paper 07-03 for the today meeting) and the disclosure for equity instruments measured at FVOCI.

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<sup>2</sup> A detailed analysis of the IASB September tentative decisions was proved to EFRAG FIWG, EFRAG IAWG and EFRAG FR TEG on 27 September 2022, and 4 and 6 October 2022 respectively.

<sup>3</sup> EFRAG FIWG, EFRAG IAWG, and EFRAG FR TEG discussed proposed disclosure requirements and relating to the transition and effective at their meetings on 25 October, 3 November and 9 November 2022 respectively.

**Next steps**

- 13 The EFRAG Secretariat will continue to monitor the IASB developments on the project and provide update to the EFRAG FR TEG and other working groups' members.

**Agenda Papers**

- 14 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 07-02 – Amendments to CM - CLI sweep issue - Issues paper;
  - (b) Agenda paper 07-03 – Amendments to CM - Accounting policy choice for derecognition of financial liabilities - Issues paper;
  - (c) Agenda paper 07-04 – Amendments to CM - Due Process Steps - Issues paper.