

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR 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 FRB or EFRAG FR 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 FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

PIR IFRS 9 *Classification and Measurement* - Financial Liabilities and Own Credit and Responding to the Project Feedback Issues Paper

Objective

- 1 To seek views of the EFRAG FR TEG on:
 - (a) a summary of the feedback on the RFI, the IASB staff analysis and recommendations in respect of financial liabilities and own credit; and
 - (b) the IASB decision whether to conclude the Post-implementation Review of IFRS 9 *Classification and Measurement*.

Financial Liabilities and Own Credit

Summary of the feedback received

- 2 The feedback showed that the requirements for financial liabilities, including the presentation of own credit changes in Other Comprehensive Income (OCI) for financial liabilities designated at fair value through profit or loss (FVTPL) worked as intended and provided useful information.
- 3 A few respondents reported difficulties in separating fair value changes from own credit risk from other fair value changes and a few suggested to extend this option to all financial liabilities measured at FVTPL.

EFRAG comment letter

- 4 In its comment letter EFRAG noted the significant judgement involved in measuring the own credit spread and in auditing the calculations and practical difficulties with the separation of the own credit risk component.
- 5 However, based on the overall feedback received from the constituents, EFRAG considered that the requirements work as intended.

The IASB staff recommendations and the IASB decision

- 6 In the IASB staff's view, IFRS 9 already provides principle-based application guidance (largely carried forward from IFRS 7) to help calculating the amount of change in fair value that is attributable to own credit risk. Paragraphs B5.7.13 - B5.7.15 provide guidance on how to distinguish the own credit risk from other types of risk.
- 7 The request to broaden the scope in the IASB staff view would concern the liabilities which are either derivatives or meet the definition of held for trading or are contingent consideration under IFRS 3 *Business Combinations*.

- 8 The IASB staff notes that for financial liabilities held for trading, an entity will generally realise the effects of changes in the liability's credit risk when that instrument is transferred. Therefore, it would not be appropriate to present fair value changes on financial liabilities that are held for trading in OCI.
- 9 The IASB staff also concluded that changes in the fair value of contingent consideration do not typically result from changes in the acquirer's own credit risk
- 10 Based on the above, the IASB staff concluded that requirements work as intended and costs and benefits are not different from the ones initially expected. Therefore, it recommended not to take any further action on this matter.
- 11 At its November meeting all the 11 IASB members agreed with the IASB staff analysis and recommendation.

EFRAG working groups

- 12 EFRAG FIWG discussed this topic at its meeting on 22 November 2022 and noted that the issues on the evaluation of own credit risk were not pervasive enough to justify a standard setting. Members on balance agreed with the IASB decision not to take any further action on this matter.
- 13 EFRAG IAWG discussed this topic at its meeting on 24 November 2022 and did not provide any comments.

The EFRAG Secretariat assessment

- 14 The EFRAG Secretariat agrees with the IASB decision in respect of financial liabilities and own credit.

<p>Question for EFRAG FR TEG</p> <ol style="list-style-type: none"> 15 Does EFRAG FR TEG agree with the IASB decision in respect of financial liabilities and own credit?

Responding to the PIR IFRS 9 Classification and Measurement feedback and next step

- 16 The IASB Staff provided an overview of the work performed on the second phase of the PIR and asked the IASB to decide whether this work was sufficient and the PIR of IFRS 9 - *Classification and Measurement* can be concluded.
- 17 The table below provides a summary of the IASB decisions by question resulting from PIR.

Topic	IASB Agenda Paper	IASB decision
1. Classification and measurement	ap3b-responding-to-the-feedback-and-next-step.pdf (ifrs.org) Paragraphs 12-15	The IASB was not asked to make any decisions in relation to this question.
2. Business model for managing financial assets	ap3b-business-model-assessment.pdf (ifrs.org)	No further action needed.

3. Contractual cash flow characteristics		
a. ESG-linked features and contractually linked instruments	AP3: Contractual cash flow characteristics—Prioritising PIR findings (ifrs.org)	The IASB decided to start a standard-setting project to clarify particular aspects of the requirements for assessing the contractual cash flow characteristics of a financial asset.
b. Other application questions	AP3: Cover note (ifrs.org) and AP3: Other matters raised in PIR feedback (ifrs.org)	Following consultation with ASAF members on the application questions, the IASB decided either to consider the matter as part of other standard-setting projects or take no further action.
4. Equity instruments and Other Comprehensive Income (OCI)	AP3A: Equity instruments and other comprehensive income (amended) (ifrs.org) and ap3a-equity-instruments-and-other-comprehensive-income.pdf (ifrs.org)	The IASB decided not to make any changes to the requirements in IFRS 9 because it did not identify any evidence that there are fundamental questions about the suitability or clarity of the requirements or that the benefits to users of financial statements are significantly lower than expected. However, to improve the transparency of amounts presented in OCI, the IASB tentatively decided to propose amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> .
5. Financial liabilities and own credit	ap3a-financial-liabilities-and-own-credit.pdf (ifrs.org)	Subject to IASB decision on Agenda Paper 3A of November meeting.
6. Modifications to contractual cash flows	AP3C: Modification of financial assets and financial liabilities and amortised cost measurement and the effective interest method—prioritising PIR findings (ifrs.org)	The IASB decided to add a project on amortised cost measurement and modifications to its research pipeline.
7. Amortised cost and the effective interest method		
8. Transition	ap3b-responding-to-the-feedback-and-next-step.pdf (ifrs.org) Paragraphs 16-18	The IASB was not asked to make any decisions in relation to this question.
9. Other matters		

a. Cash received via electronic transfer as settlement for a financial asset	ap3c-exploring-possible-narrow-scope-amendments-for-electronic-cash-transfers.pdf (ifrs.org)	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.
b. Other application questions	AP3: Other matters raised in PIR feedback (ifrs.org)	For other application questions following consultation with ASAF members, the IASB decided to either consider the matter as part of other projects or take no further action.

Next steps

- 18 The IASB Staff will prepare the Report and Feedback Statement on the PIR to be reviewed by the IASB and a copy to be submitted to the Due Process Oversight Committee (DPOC). The Report will be published once the DPOC is satisfied that the IASB has completed the review satisfactorily.

The IASB Staff recommendation and the IASB decision

- 19 The IASB staff considers that sufficient work has been completed to conclude the PIR of IFRS 9 *Classification and Measurement* in accordance with paragraphs 6.56 to 6.59 of the Due Process Handbook.
- 20 At its November meeting all the 11 members of the IASB agreed with the IASB staff recommendation.

EFRAG working groups

- 21 EFRAG FIWG discussed this topic at its meeting on 22 November 2022 and agreed with the IASB staff conclusion that sufficient work has been carried out to conclude the PIR of IFRS 9 *Classification and Measurement*. Members welcomed that this PIR resulted in a number of important topics which will be addressed by the IASB in the *Amendments to Classification and Measurement requirements of IFRS 9* project.
- 22 EFRAG IAWG discussed this topic at its meeting on 24 November 2022 and did not provide any comments.

The EFRAG Secretariat assessment

- 23 The EFRAG Secretariat agrees that enough work was carried out by the IASB to conclude the PIR of IFRS 9 *Classification and Measurement*.

Question for EFRAG FR TEG

- 24 Does EFRAG FR TEG agree with the IASB decision to conclude the PIR of IFRS 9 *Classification and Measurement*?