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IASB ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)

Summary of the feedback received

Objective

- 1 The objective of this session is to provide the EFRAG FR TEG with a summary of feedback on the ED received by the IASB from comment letters and outreach events.

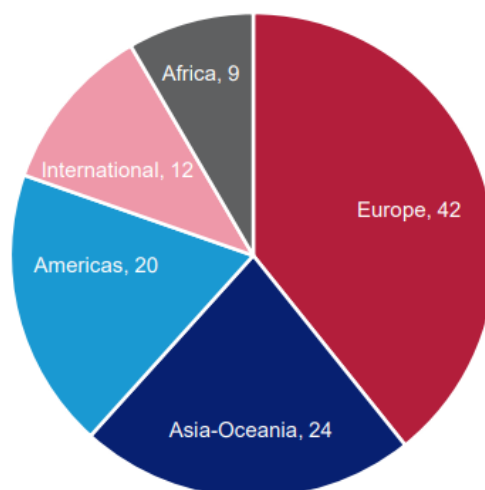
Background

- 2 The IASB has carried out a post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments* and related requirements in IFRS 7 *Financial Instruments: Disclosures* ('PIR'). The work performed by the IASB and the conclusions reached are summarised in the [Project Report and Feedback Statement–Post-implementation Review of IFRS 9 Financial Instruments–Classification and Measurement](#), published in December 2022.
- 3 To address the issues identified during PIR, in March 2023 the IASB published [the ED](#), proposing the following amendments to IFRS 9:
 - (a) derecognition of a financial liability settled through electronic transfer;
 - (b) classification of financial assets – to clarify the application guidance for assessing the contractual cash flow characteristics of financial assets, including:
 - (i) financial assets with contractual terms that could change the timing or amount of contractual cash flows, for example, those with ESG-linked features;
 - (ii) financial assets with non-recourse features; and
 - (iii) financial assets that are contractually linked instruments.
- 4 The ED also proposed to make amendments to the disclosure requirements in IFRS 7 for:
 - (a) investments in equity instruments designated at fair value through other comprehensive income (OCI); and
 - (b) financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that is specific to the debtor.

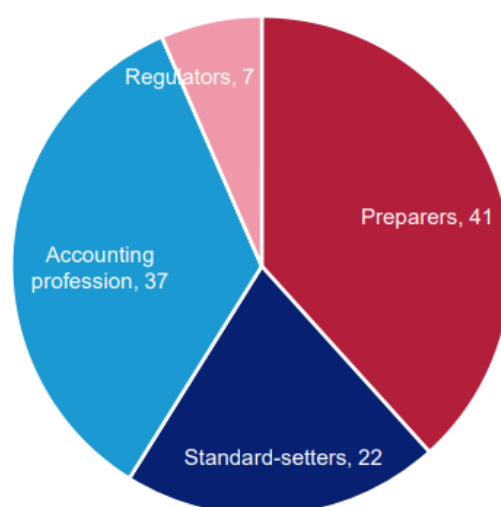
Overview of the feedback received by the IASB

- 5 The IASB received 107 comment letters on the ED from different regions and types of stakeholders. See the graphs below for more details:

Comment letters by region



Comment letters by stakeholder type



- 6 Most respondents supported the proposed amendments but expressed several concerns and asked for more clarifications. The detailed feedback is described below.

Question 1—Derecognition of a financial liability through electronic transfer

Date of initial recognition or derecognition

- 7 Most respondents generally agreed with the proposed clarification in paragraph B3.1.2A of the ED that settlement date accounting is applied when recognising or derecognising financial assets and financial liabilities.
- 8 However, many respondents were concerned that reference to the application of settlement date accounting (as described in paragraph B3.1.6 of IFRS 9) may have

unintended consequences and when read in combination with the general principle in paragraph 3.1.1 of IFRS 9, could lead to further diversity in practice. The respondents noted that it was not clear how the proposed requirements:

- (a) are applied to derivatives, such as forward contracts that are recognised on the commitment date as required by paragraph B3.1.2(c) of IFRS 9;
 - (b) are applied to the recognition and derecognition of financial liabilities as paragraph 3.1.6 of IFRS 9 only refers to financial assets (in line with EFRAG response); and
 - (c) interact with the implementation guidance in section B.32 of IFRS 9 which states that there are no specific requirements about applying settlement date accounting to financial liabilities, which in their opinion means the clarification cannot reference to paragraph B3.1.6 of IFRS 9.
- 9 Some of these respondents suggested to instead only refer to the date on which financial assets or financial liabilities are recognised or derecognised, as this was the original question considered by the IFRS IC.
- 10 A few respondents (mainly from Asia) proposed separating the finalisation of the proposed amendments from the other proposals in the ED, because in their view, further analysis of the effects on proposals on various electronic payment systems was necessary.

Scope and criteria for derecognising a financial liability before the settlement date

- 11 Most respondents welcomed the IASB proposals. However, many asked for further clarifications or made recommendations for refining the scope and criteria of the requirements.
- 12 In regard to the scope, some respondents suggested that the scope should be extended to other payment means, such as cheques and/or to the financial assets (EFRAG has supported the limited scope). The negative impact on reconciliation of intercompany balances was noted if the financial assets are not included.
- 13 While most respondents agreed with the proposed criteria in paragraph B3.3.8 of the ED, some stated that they pose too high a hurdle resulting in the proposals being of little practical benefit (in line with EFRAG response).
- 14 Some of these respondents recommended to align the criteria in paragraphs B3.3.8(a) and B3.3.8(b) to both refer to 'practical ability'. In their view, requiring entities to have no ability to cancel, withdraw or stop a payment instruction will result in nearly no transactions meeting the proposed requirements because entities might have the legal right to cancel or withdraw an instrument subject to a penalty (in line with EFRAG suggestion).
- 15 Further feedback included clarifications:
- (a) whether the 'practical ability to access cash' in paragraph B3.3.8(b) of the ED includes cash drawdowns from credit facilities such as overdrafts or only 'free cash' of the entity; and
 - (b) what is meant by 'settlement risk' in paragraph B3.3.8(c) of the ED and the terms 'short' and 'standard administrative process' in paragraph B3.3.9 (in line with EFRAG response).
- 16 Some respondents suggested applying the requirements not on a system-by-system, but on 'all-or-nothing' basis to all electronic payment systems, meeting the criteria. (EFRAG has supported a 'system-by-system' basis).

Other observations

- 17 Other comments were to:
- (a) Specify that the corresponding credit is to cash (in line with EFRAG suggestion); and
 - (b) Define ‘electronic payment system’.

The EFRAG Secretariat assessment

- 18 The EFRAG Secretariat considers that the feedback received by the IASB on Question 1 is very much in line with the EFRAG comment letter.

Question 2 - Classification of financial assets - contractual terms that are consistent with a basic lending arrangement

- 19 Almost all respondents appreciated the IASB’s intention to address this issue especially for financial assets with ESG-linked features.
- 20 Although many respondents (mostly preparers) considered the proposed clarifications helpful, they nevertheless asked for more refinements.

ESG-linked features consistent with a basic lending arrangement

- 21 Some respondents considered that the proposals in paragraph B4.1.8A and B4.1.10A of the ED do not adequately explain why contingent events that are specific to the debtor are consistent with the concept of basic lending risks and costs as discussed in paragraph B4.1.7A of IFRS 9. They also found the example of the Instrument EA in paragraph B4.1.13 too simplistic and suggested to provide more complex fact patterns (in line with EFRAG’s response).
- 22 Many respondents observed that the requirement that “the occurrence (or non-occurrence) of the contingent event must be specific to the debtor” in paragraph B4.1.10A would preclude any instruments where the ESG-linked targets are set at a consolidated level or for a group entity other than the legal debtor to meet the SPPI requirements. Some respondents also noted that it is unclear whether so-called Scope III greenhouse gas emissions, for which an entity is only indirectly responsible, can be considered ‘specific to the debtor’ (in line with EFRAG’s response).

Unintended consequences for the classification of other financial assets

- 23 Many respondents were concerned that the proposed clarifications in paragraph B4.1.10A of the ED could result in contractual terms that are currently considered to be consistent with a basic lending arrangement to no longer represent SPPI cash flows. Many of these respondents disagreed with the statement in paragraph BC67 that ‘a change in contractual cash flows due to a contingent event that is specific to the creditor or another party would be inconsistent with a basic lending arrangement’. In their view, this could be interpreted to include so-called ‘increased cost clauses’ (in line with EFRAG’s response).
- 24 For some respondents it was not clear whether paragraph B4.1.10A of the ED is intended to apply to all contractual terms that change the timing or amount of contractual cash flows, or only those terms that are contingent on events that are not directly linked to basic lending risks or costs.
- 25 On the other hand, some respondents recommended that the IASB clarify that paragraph B4.1.10A of the ED needs to be applied in the context of the general SPPI requirements and not in isolation. A few of these respondents were concerned that if the proposed clarification was applied in isolation, it could result

in some financial assets being considered to have SPPI cash flows even though the instruments are not currently considered to be basic lending arrangements, for example a loan with an interest rate that is linked to the debtor's sale targets.

Other comments

- 26 Many respondents noted a contradiction between the statements in paragraph B4.1.8A of the ED that the assessment of interest focuses on *what* an entity is being compensated for, rather than *how much* compensation an entity receives and that a change in contractual cash flows is inconsistent with a basic lending arrangement if it is *not aligned with the direction and magnitude* of the change in basic lending risks or costs (in line with EFRAG's response).
- 27 Some respondents recommended removing the reference to magnitude, while some others recommended using a different term such as 'proportionate' or 'commensurate with the changes in risk'. (EFRAG suggested using existing concepts of the SPPI guidance.)
- 28 Some other respondents suggested clarifying what is meant by 'contingent event', 'investment in the debtor' and 'performance of specified assets'; and adding more complex examples (in line with EFRAG's response).

The EFRAG Secretariat assessment

- 29 The EFRAG Secretariat considers that the feedback received by the IASB on Question 2 is generally in line with the EFRAG's response.
- 30 Some of the EFRAG's suggestions are not listed in the feedback received.
- 31 For example, EFRAG elaborated more on types of illustrative examples to include, such as interest rate adjustments when capital adequacy cost changes for the lender, examples when interbank interest rates change or examples with the mixture of the three ESG targets. In addition, EFRAG noted that the requirements in paragraphs B4.1.7, B4.1.8A, B4.1.10 and B4.1.10A should be applied sequentially and that illustrative examples illustrating it would be helpful.
- 32 EFRAG also suggested the IASB to clarify that de-minimis rule from paragraph B4.1.18 of IFRS 9 remains applicable and recommended to add "profit margin" to the list of factors consistent with a basic lending arrangement in paragraph B4.1.8A.

Question 3 - Classification of financial assets - financial assets with non-recourse features

- 33 Most respondents expressed support for the proposed amendments in paragraphs B4.1.16 and B4.1.16A and found the examples in paragraph B4.1.17A useful.
- 34 However, some respondents expressed concerns over the description of financial assets with non-recourse features in paragraph B4.1.16A of the ED and asked further clarifications, such as:
 - (a) whether it is the IASB's intention to narrow the scope of non-recourse features. Some respondents said that a financial asset, with the contractual right to receive cash flows limited to those generated by the specified asset only in default, is currently understood to have non-recourse features (in line with EFRAG's response);
 - (b) whether a financial asset has non-recourse features only if such features are explicit in the contractual terms as opposed to being structurally implied

(EFRAG supported that “non-recourse features” are considered as an explicit contractual term of the financial asset); and

- (c) whether a guarantee provided to the creditor is deemed similar to a right to require a debtor to pledge additional assets as described in paragraph BC77 of the ED.

35 A few respondents suggested the IASB include paragraphs BC75–BC77 of the ED into the main text of IFRS 9.

36 Some respondents suggested including additional guidance and/or illustrative examples on how to consider the factors in paragraph B4.1.17A of the ED, for example the legal and capital structure of the debtor.

The EFRAG Secretariat assessment

37 In the EFRAG Secretariat view, the feedback received by the IASB is in line with main EFRAG message about narrow scoping of non-recourse features.

38 The EFRAG Secretariat notes that EFRAG suggestion to delete the reference to “equity instruments” in paragraph B4.1.17A(b) of the ED is not reflected in the feedback.

Question 4 - Classification of financial assets - contractually linked instruments

39 Most respondents welcomed the IASB clarifications of the scope of instruments to which the CLI requirements are applied, including the one related to eligible financial instruments in the underlying pool.

40 However, many of them asked for further clarifications and/or made some suggestions.

Scope (B4.1.20 of the ED)

41 Some respondents made the following suggestions:

- (a) To clarify that even though CLIs have non-recourse features, the CLI requirements in paragraphs B4.1.21–B4.1.26 of IFRS 9 (as amended by the ED) continue to be applied to those instruments and not the requirements relating to non-recourse assets in paragraphs B.4.1.17 and B4.1.17A of the ED (in line with EFRAG’s response); and
- (b) incorporating explanations about the reduction in the contractual rights to receive cash flows that were included in [the IASB Agenda Paper 16B](#) for the September 2022 IASB meeting into the application guidance.

Secured lending arrangements (B4.1.20A of the ED)

42 Although most respondents agreed with the proposed amendments in paragraph B4.1.20A of the ED, many asked to add further application guidance to explain:

- (a) whether transactions would be CLIs if the junior debt instrument is held by another entity (other than the sponsoring entity) or whether reassessment is needed when the junior debt holder (the sponsoring entity) subsequently sells the instrument (in line with EFRAG’s response);
- (b) whether transactions contain CLIs if the senior debt instrument is syndicated among multiple creditors, which hold pro-rata rights to the cash flows (in line with EFRAG’s response);

- (c) whether, in the case of secured lending arrangement, the requirements in paragraphs B4.1.7–B4.1.19 of IFRS 9 (as amended by the ED) are applied to the junior debt instrument when assessing its contractual cash flows characteristics; and
- (d) why transactions described in paragraph B4.1.20A of the ED do not contain multiple contractually linked instruments because the transactions appear to have the characteristics of CLIs flows (in line with EFRAG’s response).

Eligible financial instruments in the underlying pool (B4.1.23 of the ED)

- 43 Almost all respondents supported the IASB’s decision relating to the eligible financial instruments in the underlying pool for the purpose of the assessment required in paragraph B4.1.23 of IFRS 9.
- 44 Some respondents asked for application guidance on how to assess the contractual cash flow characteristics of lease receivables if residual value risk has a de minimis impact on the cash flow to the tranches or if residual value risk will be mitigated by a residual value guarantee. A few respondents expressed a concern that it could be read that lease receivables will automatically have SPPI cash flows and suggested including some of the explanations from AP16B for the September 2022 IASB meeting in the main text of IFRS 9.

Other comments

- 45 A few respondents reiterated some of the questions raised as part of the PIR and suggested to:
 - (a) clarify what constitutes ‘tranche’ and define the term in Appendix A of IFRS 9;
 - (b) to simplify the SPPI assessment for the most senior tranche in a CLI transaction; and
 - (c) to clarify whether it is the IASB’s intention to have different accounting outcomes between CLIs and non-recourse assets of which the underlying pool includes non-financial instruments or financial instruments that do not have SPPI cash flows.

The EFRAG Secretariat assessment

- 46 The EFRAG Secretariat notes that the feedback received by the IASB on Question 4 lists more concerns than expressed in the EFRAG’s response, such as concerns about paragraph B4.1.23 of the ED and other comments.
- 47 Some of the EFRAG’s suggestions are not listed in the feedback. For example, EFRAG recommendation to change the wording “disproportionate allocation of losses” to “disproportionate allocation of cash flows” in the paragraph B.4.1.20 of the ED.

Question 5 - Disclosures - investments in equity instruments designated at fair value through other comprehensive income

Disclosure of an aggregate fair value (paragraph 11A(c) of IFRS 7)

- 48 Most respondents welcomed the proposed amendment to *not require*, at the reporting date, the disclosure of the fair value of *each* equity instrument for which an entity has elected to present subsequent changes in fair value in OCI., but a few asked for further clarifications:
 - (a) to be explicit about requiring the disclosure of total fair value of these equity

- (b) investments at the reporting date if that is what the IASB had intended; and
- (c) to require entities to determine the appropriate level of aggregation and disaggregation to provide useful information to users.

49 However, a few respondents disagreed with the proposed amendment because, in their view, the aggregation of the equity investments, to which the OCI presentation option is applied will not result in useful information.

Disclosure of changes in fair value, including those related to investments derecognised during the reporting period (paragraph 11A(f) of IFRS 7), and recycling

50 Many respondents supported the proposed disclosure requirements with some repeating their disappointment that the IASB is not amending IFRS 9 to permit the reclassification of fair value gains or losses accumulated in OCI to profit or loss ('recycling'). They, however, acknowledged the IASB's rationale and appreciate that the IASB will continue to monitor new information and further evidence, especially from insurance industry (in line with EFRAG's response).

51 At the same time, some respondents questioned the usefulness of the proposed requirements, mentioning that the most relevant information about equity investments disposed of during the reporting period is already required in paragraph 11B(c) of IFRS 7 which requires the disclosure of cumulative gain or loss on disposal. In their view, it would be more appropriate to require disclosures that distinguish between the cumulative changes in the fair value of equity instruments derecognised and cumulative changes in the fair value of equity instruments held at the end of the reporting period, to make the link to the 'realised' and 'unrealised' fair value gains or losses accumulated in OCI.

52 A few respondents noted that required information may not be readily available and, therefore, costly to obtain.

Illustrative example accompanying IFRS 7 (paragraphs IG11A and IG11B)

53 Some of the respondents that commented on these proposals, found them useful, but suggested cross-referencing the line items in the illustrative example to the applicable sub-sections in paragraphs 11A and 11B of IFRS 7.

The EFRAG Secretariat assessment

54 The EFRAG Secretariat notes that EFRAG agreed with the proposed disclosure requirements and the feedback of the majority is in line with the EFRAG's views. Nevertheless, EFRAG proposed:

- (a) requiring entities to provide separate disclosure of significant investments in equity instruments since this information helps users to evaluate the performance of those equity investments; and
- (b) to reconsider the use of non-controlling interest in paragraphs IG11A and IG11B as this might create confusion for interests creating significant influence.

Question 6 - Disclosures - contractual terms that could change the timing or amount of contractual cash flows

55 Many respondents, including most standard setters, considered that the proposed disclosures would provide useful information. This view was also supported by members of the Capital Markets Advisory Committee during their [joint meeting](#) with the Global Preparers Forum in June 2023.

- 56 However, many other respondents, specifically banks and banking organisations, voiced strong objections against the proposed scope of the requirements, because of the significant costs for preparers and limited benefits to users (in line with EFRAG response).
- 57 Many suggested limiting the scope of disclosure requirements by:
- (a) excluding financial liabilities (since there appears to be an overlap with existing requirements in paragraph B10A of IFRS 7);
 - (b) excluding changes in cash flows due to changes in credit risk (since the credit risk disclosures in IFRS 7 already explain how credit risk is managed);
 - (c) excluding changes due to ‘increased cost clauses’;
 - (d) limiting the scope to ESG-linked features; or
 - (e) limiting the scope to financial assets to which paragraph B4.1.10A is applied for contingent events that are not directly linked to basic lending risks and costs.
- 58 A few of these respondents believed that additional disclosure requirements are unnecessary since IFRS 7 already requires the disclosure of information that enables users to evaluate the significance of financial instruments for its financial position and performance and the PIR did not provide evidence that users require additional disclosures.
- 59 Some respondents questioned the practicality and usefulness of the quantitative disclosures proposed in paragraph 20B(b) of the ED (in line with EFRAG response).

The EFRAG Secretariat assessment

- 60 The feedback received highlighted the diverging views on the proposed disclosure requirements. The EFRAG’s position about the high costs and limited usefulness of the proposed disclosure was shared by many respondents.
- 61 The EFRAG Secretariat notes that the EFRAG’s view that the proposed disclosure requirements should exclude credit impaired financial assets and quantitative disclosures for financial assets measured at FVOCI is not mentioned.

Question 7 - Transition

- 62 Almost all respondents agreed with the proposal to apply the amendments retrospectively without being required to restate prior periods to reflect the application of the amendments.
- 63 Many respondents recommended allowing entities to initially apply the different parts of the amendments independently, noting that the amendments to the requirements for classification of financial assets were more urgent.
- 64 Many of these respondents argued that more time would be needed to implement the amendments relating to the derecognition of financial assets and financial liabilities and therefore recommended a later effective date for these amendments.

The EFRAG Secretariat assessment

- 65 The EFRAG Secretariat considers that the feedback received by the IASB is in line with the EFRAG response to this Question.

EFRAG FIWG discussion

- 66 At its 9 October meeting, the EFRAG FIWG discussed feedback received by the IASB on its ED *Amendments to Classification and Measurement of Financial Instruments* and provided the following comments:

Question 2 - Classification of financial assets - contractual terms that are consistent with a basic lending arrangement

- 67 One EFRAG FIWG member noted that their portfolio of ESG-linked loans is increasing and that a timely solution from the IASB is needed which was also highlighted in EFRAG's response to the ED.

Questions 5 and 6 - Disclosure

- 68 One EFRAG FIWG member reminded EFRAG's request to the IASB to come back to the recycling issue during the PIR of IFRS 17 *Insurance Contracts*.
- 69 One EFRAG FIWG member noted that diverging views by stakeholders on the proposed disclosures of contractual terms that could change the timing or amount of contractual cash flows will be a challenge for the IASB. These disclosures would require having a better understanding of the cash flows arising from the financial instruments with contingent contractual terms.

Questions 1, 3, 4 and 7

- 70 EFRAG FIWG did not provide any comments on the feedback received on these questions.

Next steps

- 71 The IASB expects to publish the final amendments in 1 half of 2024.

Questions for EFRAG FR TEG

- 72 Does EFRAG FR TEG have any comments on the feedback received by the IASB?