

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.

Amendments to the Classification and Measurement of Financial Instruments – Summary and analysis of the comment letters received

- 1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter that is presented as agenda paper 01-03 (clean version) and agenda paper 01-04 (marked-up version).

Structure of the paper

- 2 This comment letter analysis contains:
 - (a) Summary of respondents;
 - (b) Summary of respondents' views;
 - (c) Main positions in EFRAG's proposed final comment letter;
 - (d) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat's recommendations and questions to EFRAG FR TEG; and
 - (e) Appendix 2 – list of respondents.

Summary of respondents

- 3 At the time of writing, 8 comment letters have been received in final versions. In addition, EFRAG has received 3 additional letters in draft version which have been considered for the present summary of feedback but are not published to EFRAG's website.
- 4 All final letters received have been uploaded to EFRAG's website ([here](#)).
- 5 Appendix 2 provides a list of all respondents who submitted final comment letters.

Summary of respondents' views

Question 1 – Derecognition of a financial liability settled through electronic transfer

- 6 Nine out of eleven respondents who responded to this question, supported the IASB's proposals for derecognition of a financial liability settled through electronic transfer before the settlement date.
- 7 One respondent did not support the proposals on the basis that they are impractical and costly to implement.
- 8 The majority of responses received did not disagree with the EFRAG response with some providing several suggestions of scope extension and some asking for more clarifications of notions used in paragraphs B3.3.8 and B3.3.9.

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

- 9 All 11 respondents replied to this question with eight respondents agreeing with the general principle-based approach to SPPI requirements chosen by the IASB not to create specific exception for the instruments with ESG-linked features. The majority of the respondents highlighted the urgency of these amendments and suggested the IASB to treat them separately from the rest of the proposals. One respondent disagreed with the IASB proposals on the grounds that the “new principle proposed in the ED (paragraph B4.1.10A) ‘occurrence of the contingent event is specific to a debtor’ does not depict the underlying characteristics of ESG features in general”. In this respondent’s view the financial instruments with ESG-linked features encompass both financial and non-financial rights and obligations referred by paragraph AG23 of IAS 32.
- 10 Another respondent would prefer to have a specific exception for financial instruments with ESG features rather than the broader solution chosen by the IASB.
- 11 The remaining respondents expressed concerns and asked for clarifications regarding the new notions used in the ED, such “magnitude” and “contingent event specific to the debtor”. They also suggested the IASB to provide more complex examples illustrating all the notions in paragraphs B4.1.8A and B4.4.10A. These concerns were broadly in line with the EFRAG draft response.

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

- 12 Almost all respondents who answered this question supported the IASB’s clarification on the meaning of “non-recourse” financial asset and the factors proposed in paragraph B4.1.17A of the ED. They also did not disagree with the EFRAG’s response of the DCL.
- 13 One constituent expressed reservations about the proposed revised definition of “non-recourse” features considering it unclear, difficult to apply and, in its view, more restrictive than the existing definition in paragraph B4.1.16 of IFRS 9.

Question 4 – Classification of financial assets – contractually linked instruments

- 14 All constituents who answered this question generally supported the amendments to paragraphs B4.1.20, B4.1.20A and B4.1.21 of the ED. One constituent that supported the amendments to paragraphs B4.1.20, B4.1.20A and B4.1.21 of the ED expressed mixed views on the proposed amendments to paragraph B4.1.23 of the ED.
- 15 The clarifications requested by constituents mainly related to paragraph B4.1.20A of the ED for which constituents considered that the IASB could clarify circumstances in which the junior tranche is held by an entity other than the debtor, or the senior tranche is held by more than one creditor.

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

- 16 Two out of nine of those that responded to the question supported the proposed disclosures. Four supported EFRAG’s draft comment letter. Three did not support the proposed disclosures as they considered that it is essential to resolve the existing deficiency in accounting.

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

- 17 The majority of the constituents did not support the proposed disclosures due to high implementation and ongoing costs with a limited value to users. These constituents

suggested some changes to the disclosure proposals, particularly relating to paragraph 20B (b) of the proposed IFRS 7 amendments.

Question 7 – Transition

- 18 Almost all respondents who answered this question supported the IASB’s proposed requirement for transition set out in paragraphs 7.2.47 – 7.2.49 of the ED. They also did not disagree with the EFRAG’s response of the DCL.

Main positions in EFRAG’s proposed final comment letter

Cover letter

- 19 Considering the feedback received from constituents, the EFRAG Secretariat recommends to amend the cover letter as follows:
- (a) to limit the EFRAG support to the clarification of the notion of non-recourse features.
 - (b) to include the proposal to move the proposed paragraph B4.1.20A to Basis for Conclusions; and
 - (c) to include the proposal to delete paragraph 20B(b) of the proposed IFRS 7 amendments.

Question 1 – Derecognition of a financial liability settled through electronic transfer

- 20 Considering the feedback received from constituents, the EFRAG Secretariat recommends to amend its draft response to Question 1 by removing paragraph 27 of the EFRAG draft comment letter.

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

- 21 Considering the feedback received from constituents, the EFRAG Secretariat suggests recommending the IASB to add "profit margin" to the list of factors consistent with a basic lending arrangement in paragraph B4.1.8A and to consider using the concept of leverage by clarifying how it applies to changes in contractual cash flows that are specific to the debtor.
- 22 The EFRAG Secretariat recommends to ask for clarification that contingent events “specific to the debtor” include contingent events “specific to the debtor or an entity controlled by the debtor.”

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

- 23 Considering the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to Question 3 in the draft comment letter.

Question 4 – Classification of financial assets – contractually linked instruments

- 24 EFRAG Secretariat recommends amending the draft response to Question 4 adding as a first option a request to the IASB to move paragraph B4.1.20A to the Basis for Conclusions and thus clarifying which specific characteristics are key for the conclusion that the described arrangement does not contain CLIs.

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

- 25 Considering the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to Question 5 in the draft comment letter.

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

- 26 Considering the concerns from the constituents, the EFRAG Secretariat recommends suggesting to the IASB to delete paragraph 20B(b) of the proposed IFRS 7 amendments.
- 27 In addition, in order to be explicit, the EFRAG Secretariat recommends adding a sentence thereby suggesting to exclude the proposed quantitative disclosures for financial assets measured at FVOCI.

Question 7 – Transition

- 28 Considering the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to Question 7 in the draft comment letter.

Question to EFRAG FR TEG

- 29 Does EFRAG FR TEG agree with EFRAG Secretariat's recommendations in *Appendix 1: Analysis and Summary of Comments* received? (See paragraphs 23-27, 58-62, 81-82, 102-104, 116-119, 132-133, 145-147)

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG FR TEG

Question 1 - Derecognition of a financial liability settled through electronic transfer

Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity.

Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Proposals in the ED

- 1 *This amendment results from an IFRS IC submission in September 2021 questioning the application of IFRS 9 in relation to the recognition of cash received by an entity via electronic transfer as settlement of a financial asset (a trade receivable).*
- 2 *The IFRS IC concluded that an entity, in applying paragraphs 3.2.3(a) and 3.1.1 of IFRS 9, is required:*
 - (a) *to derecognise a trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and*
 - (b) *to recognise the cash (or other financial asset) received as settlement of that trade receivable on the same date.*
- 3 *Respondents to the IFRS IC tentative agenda decision did not disagree with its technical analysis and conclusions. However, they expressed concerns about the disruption of long-standing practices, costs of applying the agenda decision and possible adverse consequences in relation to other fact patterns, in particular the derecognition of trade payables.*
- 4 *The IASB considered two narrow-scope standard-setting approaches for developing the new requirements:*
 - (a) *clarifying aspects of the derecognition requirements in IFRS 9;*
 - (b) *developing requirements to permit derecognition of a financial liability before the settlement date when specified criteria are met.*
- 5 *The IASB rejected the approach (a) because it would require a fundamental reconsideration of the recognition and derecognition requirements in IFRS 9 for both financial assets and financial liabilities.*
- 6 *The IASB therefore decided to go for approach (b) and to clarify in paragraph B3.1.2A of the ED that when recognising or derecognising a financial asset or financial liability, an entity shall apply settlement date accounting (see paragraph B3.1.6) unless paragraph B3.1.3 applies or an entity elects to apply paragraph B3.3.8. The IASB proposes in paragraph B3.3.8 of the ED that an entity be permitted to deem a financial liability (or a part of it) - that will be settled with cash using an electronic payment system - to be discharged before the settlement date if, and only if, the entity has initiated the payment instruction and:*
 - (a) *the entity has no ability to withdraw, stop or cancel the payment instruction;*

- (b) *the entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction; and*
 - (c) *the settlement risk associated with the electronic payment system is insignificant.*
- 7 *In developing the proposed amendments, the IASB also considered whether they could be applied to a wider population of cash payments instead of just electronic payment systems, for example, all cash payments from demand deposits.*
- 8 *The IASB noted that this could give rise to a number of conceptual and practical challenges. Consequently, the IASB decided to limit the scope of the proposed derecognition option to cash settlements using electronic payment systems that meet the specified criteria but without otherwise changing the application of the derecognition requirements in IFRS 9. The IASB also decided that an entity must apply the proposed derecognition option to all payments using the same electronic payment system (paragraph B3.3.10 of the ED).*
- 9 *EFRAG is seeking the views of constituents on the scope of the proposed amendments.*

EFRAG's tentative position

EFRAG welcomes the IASB's decision to address stakeholder concerns through a standard-setting process, which would allow for proper discussion and establish the appropriate transition requirements.

EFRAG considers that the narrow-scope standard-setting approach, proposed in the ED, while not solving all the concerns, would provide a timely and workable solution and reduce costs for the entities concerned.

EFRAG, however, suggests (a) amending paragraph B3.1.6 of the ED to include how an entity should apply settlement date accounting to financial liabilities and (b) add a requirement to disclose the policy used by an entity to recognise and derecognise cash.

Summary of constituents' comments

- 10 Ten out of eleven respondents commented on this question. The majority (nine) constituents supported the IASB proposals, six agreed with EFRAG suggestion to amend paragraph B3.1.6 and two - with the EFRAG proposal to clarify that the other side of the accounting entry when applying the proposed solution should be cash.
- 11 One respondent from insurance industry noted that the settlement date accounting is already applied by insurance entities, i.e., the liabilities are generally derecognised only once the contractual obligations towards policyholders are fulfilled and, therefore, considered any additional clarifications or rules-based requirements in this regard as not necessary.
- 12 Some constituents suggested to extend the scope of the proposed amendments to:
- (a) any cash payments (not only electronic) that meet the required conditions;
 - (b) all settlements made through all payment systems used by the entity;
 - (c) payments made or received by cheques, debit cards or credit cards;
 - (d) intragroup cash transfers; and
 - (e) financial assets.
- 13 Constituents proposed various clarifications to the IASB proposals in the ED.
- 14 One constituent suggested that additional clarifications were needed in paragraph B3.3.9 for what constitutes "standard administrative process" and "time between ... is short". This

constituent also suggested to add to that paragraph that the assessment of the settlement risk should be done on ongoing basis and to delete the last sentence of the paragraph as contradicting to the criteria (b) and (c) of paragraph B3.3.8.

- 15 Another constituent did not agree with the clarification proposed in paragraph 27 of EFRAG's draft comment letter. In particular, it did not support that the settlement date is considered as the date on which cash is transferred from an entity's bank account as, in this case, the application of the settlement date accounting may, depending on the contractual terms, result in derecognition of a financial liability before this liability is discharged.
- 16 This constituent also suggested that the IASB explains how the settlement date concept applies to transactions that are not regular way purchases or sales, in particular OTC derivatives. Otherwise, in this constituent view, the requirement in paragraph B3.1.2A may be seen by some as conflicting with paragraph 3.1.1 of IFRS 9, which states that financial assets and financial liabilities are recognised when the entity becomes party to the contractual provisions of the instrument.
- 17 The same constituent also expressed concern that applying paragraph B3.3.8 in a situation where the payment instruction is initiated before the end of the reporting period and the settlement date is after the end of the reporting period may lead to inconsistent results (i.e., in some cases the liability will be derecognised in the financial statements prepared for the reporting period and in other cases not).
- 18 Another constituent noted that, if finalised as proposed, the amendments may significantly change the accounting policies of a number of entities (in particular in retail industry) in relation to credit cards payments. In this constituent view, those entities will need to revisit their accounting policy and exclude 'cash-in-transit' from their cash and cash equivalents balances. This constituent questions whether it will result in the most useful information for users of financial statements and suggested the IASB to revisit the definition of cash and cash equivalents in IAS 7 when it starts working on its research project on Statement of Cash Flows and Related Matters.
- 19 Two constituents, including one not supporting the IASB proposals considered the paragraphs B3.3.8 (a) and (b) too restrictive as there will rarely be the cases where the entity will have no ability to withdraw, stop or cancel a payment instruction. For example, an entity may usually have this contractual ability (known as 'recall') when the payment instructions have been initiated further to fraud, a technical error and could be withdrawn. It might also be difficult in connection with some payment systems for an entity to demonstrate that it has no practical ability to access the cash to be used for the settlement after the payment instruction has been made. The suggestion was made to develop a single criterion in addition to the one in paragraph B3.3.8(c) that the entity has intention not to withdraw, stop or cancel the payment instruction.
- 20 The constituent who did not support the IASB proposals considered them as impractical and costly to implement, because of the reasons described in the paragraph above. This constituent suggested to remove the criteria in paragraph B3.3.8 and to allow the derecognition earlier than settlement date as an accounting policy choice whereby entities can choose to derecognise the financial liability either when the instruction is made via the electronic payment system or at the settlement date.
- 21 This constituent believed that a more wide-ranging solution that consistently addresses the appropriate treatment of both cash inflows and outflows is needed.

- 22 One respondent further suggested that after finalising the Amendments IASB should ask the IFRS IC to update its Agenda Decision ('AD') in the light of the revised requirements in IFRS 9 and then publish, subject to the usual due process steps, an updated AD.

EFRAG Secretariat's recommendations to EFRAG FR TEG on EFRAG's proposed final position

- 23 Considering the feedback received from constituents, the EFRAG Secretariat recommends to amend its draft response to Question 1 removing paragraph 27 of the EFRAG draft comment letter.
- 24 The EFRAG Secretariat does not propose to add the clarification for the derivatives because of the narrow scope of the proposed amendments which clearly does not relate to the accounting for derivatives.
- 25 The EFRAG Secretariat does not propose to include suggestions to derecognise financial liability when intention not to withdraw, stop or cancel the payment instruction or simply when the instruction is made via the electronic payment system. In the EFRAG Secretariat view such an approach would unnecessarily decrease the robustness of the proposed accounting solution.
- 26 The EFRAG Secretariat considers that the issue with cash-in-transit treatment of credit card receipts by retail companies could be better addressed within the IASB research project on *Statement of Cash Flows and Related Matters*.
- 27 The rest of the constituents' responses are generally in line with the EFRAG draft response.

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

Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:

- (a) interest for the purposes of applying paragraph B4.1.7A; and
- (b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.

The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Proposals in the ED

Background

- 28 Respondents to the PIR noted difficulties in applying the guidance on assessing whether a financial asset's contractual cash flows are SPPI on the principal amount outstanding for financial assets with ESG-linked or similar features.
- 29 The respondents considered that amortised cost would be the most relevant measurement method for such financial assets and would provide most useful information to users.
- 30 Therefore, the IASB proposes clarifying amendments to IFRS 9 relating to:
- (a) the elements of interest that are consistent with a basic lending arrangement; and

- (b) *contractual terms that change the timing or amount of contractual cash flows.*

Elements of interest in a basic lending arrangement

- 31 *Paragraph B.4.1.8A of the ED clarifies how to assess interest for the purposes of applying paragraph B4.1.7A of IFRS 9 and states that the assessment of interest focuses on **what** the entity is being compensated for rather than **how much** the entity receives for a particular element.*
- 32 *The IASB noted that the term ‘basic lending arrangement’ is used in IFRS 9 to refer to the **nature of a lending arrangement**, rather than to an arrangement that is common or widespread in a particular market or jurisdiction.*
- 33 *The IASB also decided to clarify that, for contractual cash flows to be consistent with a basic lending arrangement, a change in contractual cash flows has to be directionally consistent with, as well as proportionate to, a change in lending risks or costs.*

Contractual terms that change the timing or amount of contractual cash flows

- 34 *Respondents to the PIR asked for more guidance on applying the principles in paragraph B4.1.10 of IFRS 9 to contingent events that are not currently covered by the examples in that paragraph.*
- 35 *The IASB noted that IFRS 9 requires **all** variability in contractual cash flows over the life of an instrument to be assessed.*
- 36 *Therefore, the IASB proposes to add a new paragraph B4.1.10A which identifies and clarifies the following interrelated principles for assessing the contractual cash flows over the life of a financial asset:*
- (a) *all possible changes in contractual cash flows are considered irrespective of the probability of a contingent event occurring (except for non-genuine contractual terms, as described in paragraph B4.1.18 of IFRS 9);*
 - (b) *the timing and amount of any variability in contractual cash flows are specified in the contract;*
 - (c) *the occurrence of the contingent event is specific to the debtor; and*
 - (d) *the contractual cash flows arising from the contingent event represent neither an investment in the debtor nor an exposure to the performance of specified assets.*
- 37 *Paragraphs B4.1.13 and B4.1.14 of the ED are added to illustrate these principles.*

Consideration of possible changes in contractual cash flows, irrespective of probability

- 38 *The IASB concluded that an entity must consider the effect on contractual cash flows were any of the contingent events specified in the contract to occur, however unlikely.*

Changes to cash flows specified in the contractual terms

- 39 *The IASB decided that for changes in the amount or timing of contractual cash flows arising from a contingent event to give rise to cash flows that are SPPI those changes must be contractually specified and, therefore, determinable.*
- 40 *In other words, in addition to knowing **what would give rise to a change** in cash flows, the entity must also know **what the adjustment to the cash flows** would be in order to conclude that contractual cash flows – that could arise over the life of the instrument – are SPPI.*

The occurrence of the contingent event is specific to the debtor

- 41 *The IASB considered that changes to the timing or amount of contractual cash flows could arise from contractual terms or the occurrence (or non-occurrence) of a contractually*

specified contingent event, for example, changes in the contractual interest rate resulting from an entity achieving a contractually specified ESG target.

- 42 *The occurrence of a contingent event can be specific to the debtor even though the nature of the contingent event is not unique to the debtor.*
- 43 *The IASB further noted that not all contingent events that are specific to a debtor would be consistent with a basic lending arrangement. For example, contractual cash flows that change based on the level of a debtor's revenue or profits in a specific period would not generally be considered to be consistent with a basic lending arrangement.*

Cash flows represent neither an investment in the debtor nor an exposure to the performance of specified assets

- 44 *The IASB decided to clarify that changes in the timing or amount of contractual cash flows that represent an investment in the debtor (for example, contractual terms that entitle the creditor to a share of the debtor's revenue or profits), or an exposure to the performance of specified assets, are inconsistent with a basic lending arrangement, even if such terms are specific to the debtor.*

EFRAG's tentative position

EFRAG would like to remind that the solution is expeditiously needed and welcomes the IASB efforts in this respect.

EFRAG considers that the proposed amendments in the ED would provide a good basis for evaluating whether contractual cash flows of financial assets with ESG-linked or similar features meet SPPI requirements.

EFRAG supports the holistic approach chosen by the IASB not to provide a specific exception from the requirements on contractual cash flow characteristics in IFRS 9 for financial assets with ESG-linked features. EFRAG considers that such an approach is principle-based and would provide more flexibility in the future if new instruments with similar types of features would emerge.

Nevertheless, to avoid unintended consequences, EFRAG suggests to carefully consider the impact of the proposed requirements about "magnitude" and "contingent event specific to the debtor" on existing financial instruments currently meeting SPPI requirements.

EFRAG suggests that the IASB provides a definition and examples of what constitutes a "contingent event", and to clarify that the "de minimis" guidance remains applicable when applying SPPI requirements. EFRAG also suggests providing additional examples to better illustrate the concepts underlying the ED and examples of more complex financial instruments to address the potential application questions.

Summary of constituents' comments

- 45 All 11 constituents responded to this question. The majority of constituents (nine) highlighted that solution is expeditiously needed and suggested that the IASB makes it a priority, considering finalising and publishing them as a separate set of Amendments. Eight constituents agreed with the general principle-based approach to SPPI requirements chosen by the IASB not to create specific exception for the instruments with ESG-linked features.
- 46 One of the constituents expressed concern that the IASB has chosen to propose clarifications to the SPPI requirements more broadly rather than specifically addressing financial assets with ESG-linked features. In this constituent view, this approach has resulted in proposals that are unclear, potentially contradictory and may require significant judgement in execution.

- 47 One constituent disagreed with the IASB proposals on the grounds that the “new principle proposed in the ED (IFRS9.B4.1.10A) ‘occurrence of the contingent event is specific to a debtor’ does not depict the underlying characteristics of ESG features in general”. In this constituent’s view the financial instruments with ESG-linked features encompass both financial and non-financial rights and obligations referred by paragraph AG23 of IAS 32. This constituent considered that “ESG-linked features are non-financial rights / obligations attached to the financial asset that the parties of the instrument have to honour”. This constituent concludes that “IFRS 9 does not deal with the impact of the non-financial item that are attached to the financial asset. There is no clear guidance how this should be considered in the classification of financial assets”. This constituent “see this as a significant blackhole in the standard” and “do not think adding B4.1.10A of the ED will provide more clarity”.
- 48 In this constituent’s view, ESG features were not contingent events but an exchange transaction between two parties that created financial rights and obligations and that the IASB should not proceed with the Amendments.
- 49 The majority of constituents, in line with the EFRAG response, noted some inconsistencies and asked for further clarifications of the detailed IASB proposals. The below is the summary of the main concerns expressed by the constituents.
- “Magnitude” and paragraph B4.1.8A
- 50 The concept of “magnitude” in paragraph B4.1.8A is inconsistent with the requirement in the same paragraph that the assessment of interest should focus on “*what*” the entity is being compensated for instead of “*how much*”. In addition, it is in contradiction with paragraph BC47 which explains that an entity is not necessarily required to carry out a quantitative analysis.
- 51 Constituents provided various suggestions, for example:
- (a) adding “more” to the sentence “*The assessment of interest focuses **more** on what an entity is being compensated for...*”;
 - (b) eliminating the word “magnitude”;
 - (c) replacing “magnitude” with “should not be disproportionate” or “should be proportionate”;
 - (d) referring instead to changes that are ‘consistent with the economic rationale’ or ‘commensurate to the risks’;
 - (e) deleting the reference to ‘magnitude’ and to use instead the concept of leverage by clarifying how it applies to changes in contractual cash flows that are specific to the debtor;
 - (f) adding a “profit margin” to the list of factors consistent with a basic lending arrangement in the drafting of paragraph B4.1.8A.
 - (g) asking for additional guidance on how this consistency should be assessed, in particular how so-called “punitive rates”, where increase in the interest rate upon a missed payment is not commensurate with the increase in the expected credit losses of the instrument, should be treated.
- 52 One constituent considered that clarification in paragraph BC67 of the ED that a contingent event specific to the creditor (or another party) would fail SPPI may have unintended consequences.

Contingent event specific to the debtor

- 53 Several constituents asked to clarify the meaning of contingent event specific to the debtor, in particular whether:
- (a) it relates to the index of an issuer subsidiary or issuer mother company/ group in the separate financial statements of a subsidiary;
 - (b) the “increased cost clauses” permitting the lender to pass an increase in (funding) costs to the borrower and currently passing the SPPI criterion will be affected. Some increased cost clauses are widespread (such as those in relation to changes in regulation or law);
 - (c) revenue or EBITDA-related covenants;
 - (d) scope 3 emissions according to [Greenhouse Gas Protocol Standards](#) of entities are specific to the debtor.

Examples

- 54 Some constituents considered the two examples provided by the IASB helpful.
- 55 Three constituents considered that the analysis of the instrument EA included as an example in paragraph B4.1.13 was incomplete as it does not explain, for example, the alignment of changes in an instrument’s cash flows with the direction and magnitude of the change in basic lending risks and costs and why the nature of the contingency was considered to be SPPI (other than that it is being specific to the debtor).
- 56 One constituent further suggested developing new or amending existing example by illustrating a fact pattern where the debtor achieves a mixture of targets - social (S) and/or governance (G) and/or environmental (E). This is to avoid questions as to whether ‘S’ and ‘G’ indexation clauses are consistent with a basic loan arrangement.
- 57 Several constituents suggested to add examples better illustrating how all and not some of the requirements of paragraphs B4.1.8A and B4.1.10A should be applied in practice. It would be helpful that the examples clearly analyse the key features of the instrument and explain why they do or do not meet the proposed criteria. The examples testing the limits of the requirements, for example misusing the exceptions, or what is meant by “investments in an entity” were also considered useful.

EFRAG Secretariat’s recommendations to EFRAG FR TEG on EFRAG’s proposed final position

- 58 Considering the feedback received from constituents, the EFRAG Secretariat suggests recommending the IASB to add “profit margin” to the list of factors consistent with a basic lending arrangement in paragraph B4.1.8A and to consider using the concept of leverage by clarifying how it applies to changes in contractual cash flows that are specific to the debtor.
- 59 The EFRAG Secretariat does not recommend to consider the changes related to the mother company or group as “specific to the debtor”, because in this case the debtor does not have control of achieving or not the required target. However, the changes related to the entity controlled by the debtor could be incorporated.
- 60 The EFRAG Secretariat recommends replacing “additional” with “increased” cost clauses and adding the description of it to its draft response.
- 61 The EFRAG Secretariat suggests adding reference to paragraphs B4.1.8A and B4.1.10A and examples with the mixture of the three ESG targets to its recommendation about providing more complex examples.

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

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term ‘non-recourse’.

Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.

Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Proposals in the ED

- 62 *Feedback to the PIR included questions on assessing whether a financial asset is non-recourse, and distinguishing between credit risk and asset-performance risk when assessing whether a non-recourse financial asset represents an investment in particular assets.*
- 63 *Participants asked also for clarity as to the purpose of the “look through” assessment, required in paragraph B4.1.17 of IFRS 9 – and in paragraph B4.1.22 of IFRS 9 for contractually linked instruments (CLIs) – of the particular underlying assets or underlying pool of financial instruments.*
- 64 *The IASB considered that non-recourse in IFRS 9 referred to the absence of liability on the part of a debtor beyond any underlying assets pledged as collateral. In case of collateralised loans, the loan is secured by the collateral only in the event of default, while for the entire life of the loan, the creditor has recourse to the debtor for repayment of the loan.*
- 65 *Therefore, the IASB concluded that non-recourse financial assets are different from collateralised financial assets because the creditor’s claim is limited to the specified underlying assets throughout the life of the financial assets as well as in the case of default.*
- 66 *The IASB considered two different situations.*
- 67 *The first is when a financial asset could have non-recourse features if it is structured as a loan to a special purpose entity (SPE) and the creditor has no recourse to the entity that has transferred the assets to the SPE.*
- 68 *In such situation, the SPE may have only one source of income (the cash flows generated by the transferred assets) and nominal equity (or very little loss-absorbing capacity). Consequently, the creditor would be exposed to the performance risk of the underlying assets and the loan might not have contractual cash flows that are SPPI.*
- 69 *The second refers to situations where a creditor has the contractual right to require a debtor to pledge additional assets if specified assets do not generate sufficient cash flows or when their value decreases below a certain threshold. In these situations, the creditor has also recourse to the debtor, therefore the financial asset does not have non-recourse features.*
- 70 *The IASB proposes to amend paragraph B.4.1.16 of IFRS 9 and include paragraph B4.1.16A of the ED to clarify that, for financial assets to have non-recourse features, the creditor’s contractual right to receive cash flows must be limited to the cash flows generated by specified assets, both over the life of the financial asset and in the event of default.*
- 71 *The IASB also decided to include in paragraph B4.1.17A of the ED guidance on how to make the assessment required in paragraph B4.1.17 of IFRS 9 for financial assets with non-recourse features.*

EFRAG's tentative position

EFRAG supports the IASB decision to clarify that a financial asset has non-recourse features if an entity's contractual right to receive cash flows is limited to the cash flows generated by specified assets both over the life of the financial asset and in the case of default. Furthermore, EFRAG supports the IASB's decision to provide examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.

However, EFRAG notes that the IASB is introducing a new concept into the IFRS 9 and the definition of financial assets with non-recourse features provided in the ED is more restrictive than the application of "non-recourse" by current practice.

Summary of constituents' comments

- 72 Seven out of eleven respondents commented on this question.
- 73 Three constituents supported the IASB's clarification in paragraph B4.1.16A of the ED regarding the definition of financial assets with non-recourse features. Four constituents supported the proposed factors in paragraph B4.1.17A of the ED. Three constituents agreed with the EFRAG's response of the DCL.
- 74 One constituent noted that the proposed clarification in paragraph B4.1.16A of the ED would assist in assessing the SPPI test for non-recourse financial assets by helping to distinguish between an exposure to the performance risk of specified assets and exposure to the credit risk of the debtor.
- 75 One constituent commented that the IASB responded to the request raised during the PIR to clarify the purpose of the "look through" assessment, required in paragraph B4.1.17 of IFRS 9.
- 76 One constituent considered that the update guidance on financial assets with non-recourse features is clear and feasible and they did not expect the proposed clarification to have an impact on the current classification of existing financial assets.
- 77 One constituent noted that the factors mentioned in paragraph B4.1.7A of the ED are in line with the factors that stakeholders have so far considered in their analysis.
- 78 One constituent disagreed with the definition of non-recourse features provided by the IASB in paragraph B4.1.16A of the ED. In particular, this constituent considered the requirement to assess the limitation of the entity's contractual right to receive cash flows generated by specified assets over the life of the financial asset unclear. As consequence, the definition of non-recourse features risk being read as more restrictive than the existing definition, requiring entities to reconsider the analysis for some common financial assets. In addition, this constituent noted that it is unclear how to assess financial asset for which the limitation exists only in case of default.
- 79 Accordingly, this constituent recommended the IASB either (i) clarify how an entity would determine the classification of a financial asset for which its contractual right to receive cash flows is limited to the cash flows generated by specified assets exists only in case of default or (ii) retain the existing definition for non-recourse features in paragraph B.4.1.16 of IFRS 9.

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- 80 Considering the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to Question 3 in the draft comment letter.

- 81 Constituents that supported the IASB’s clarifications of the ED did not disagree with the EFRAG’s response of the DCL. In addition, in the EFRAG DCL without expressing dissent it was noted that the new definition of financial assets with non-recourse features provided in the ED is more restrictive than the application of “non-recourse” by current practice.

Question 4 - Classification of financial assets – contractually linked instruments

The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21 – B4.1.26 of IFRS 9.

The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Proposals in the ED

- 82 *Paragraphs B4.1.20 – B.4.26 of IFRS 9 define contractually linked instruments and the requirements for assessing the contractual cash flow characteristics of these instruments.*
- 83 *The participants in the PIR asked the IASB to clarify the scope of application of the requirements in paragraphs B.4.1.20 – B.4.1.26 of IFRS 9, noting differences in practice on the interpretation of some terms used in the Standard and whether or not the requirements for CLIs apply instead of the requirements for financial assets with non-recourse features. PIR participants also asked whether financial instrument that are not entirely within the scope of IFRS 9 could meet the criteria for financial instruments in the underlying pool, as set out in paragraph B4.1.23 of IFRS 9.*

Scope

- 84 *The IASB proposes to clarify the characteristics of CLIs that distinguish them from other transactions by amending paragraph B4.1.20 of IFRS 9 and adding paragraph B.4.1.20A in the ED.*
- 85 *In amending paragraph B.4.1.20 of IFRS 9, the IASB considered the following elements:*
- (a) *The phrase “contractually linked” refers to a transaction for which the relationship between, and the rights and obligations associated with, the different tranches are specified in the contractual terms of the instruments.*
 - (b) *It would be helpful to include the wording of paragraph BC4.26 of the Basis for Conclusions on IFRS 9 (which refers to a “waterfall” structure that prioritises payments to the holders of the different tranches) in the Standard to explain how concentrations of credit risk are created.*
 - (c) *CLIs have non-recourse features, as described in paragraph B4.1.16A of the ED: the holders of the different tranches have recourse only to the cash flows from the underlying pool of financial instruments.*
 - (d) *Not all financial assets with non-recourse features are CLIs. A key factor that distinguishes CLIs from financial assets with non-recourse features is the disproportionate allocation of losses between the holders of the tranches.*

- 86 *In addition, the IASB considered whether the requirements for CLIs apply to bilateral secured lending arrangements in which a creditor agrees to lend money to a customer subject to specified assets being transferred into a special purpose entity as security for the loan.*
- 87 *In such an arrangement, the customer (as sponsor of the SPE) would typically provide a portion of the funding the SPE uses to acquire the specified assets. This could be in the form of either an equity investment or a debt instrument that is subordinate to the debts instrument held by the creditor.*
- 88 *The IASB considered that these secured lending transactions do not contain multiple contractually linked instruments because the contract is generally negotiated between the creditor and the customer in the form of a sponsoring entity.*
- 89 *Therefore, the IASB decided to clarify, in paragraph B4.1.20A of the ED, that an entity is required to assess the contractual cash flows of the debt instrument held by the creditor in such transactions in accordance with the requirements in paragraphs B4.1.7 – B4.1.19 of IFRS 9.*

Underlying pool of financial instruments

- 90 *The IASB noted that it was not its intention to limit the scope of eligible financial instruments in the underlying pool (according to paragraph B4.1.21(b) of IFRS 9) to those financial instruments that are entirely in the scope of IFRS 9.*
- 91 *Accordingly, the IASB proposes to clarify that financial instruments that are not within the scope of the classification requirements of IFRS 9, such as lease receivables, can be included in the underlying pool of financial instruments for the purpose of paragraph B4.1.23 of IFRS 9.*

EFRAG's tentative position

EFRAG notes that the proposed amendments help to clarify the scope of transactions to which the contractually linked instruments ('CLI') requirement apply and the distinction between CLI transactions and financial assets with non-recourse features.

Regarding bilateral secured lending arrangements, as described in paragraph B4.1.20A of the ED, EFRAG welcomes the proposed clarifications that such transactions do not contain multiple contractually linked instruments.

In addition, EFRAG welcomes the clarification in paragraph B4.1.23 of IFRS 9 that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Summary of constituents' comments

- 92 *Seven out of eleven respondents commented on this question.*
- 93 *All constituents who answered this question generally supported the amendments to paragraphs B4.1.20, B4.1.20A and B4.1.21 of the ED. One constituent that supported the amendments to paragraphs B4.1.20, B4.1.20A and B4.1.21 of the ED expressed mixed views on the proposed amendments to paragraph B4.1.23 of the ED.*
- 94 *Two constituents considered that the proposed changes are clear, feasible and provide adequate clarifications on both the definition of CLI and SPPI requirements to apply to these assets. Two constituents mentioned that they did not expect the proposed clarifications to have significant changes on the current classifications of existing financial assets.*

- 95 One constituent considered that the IASB could clarify in paragraph B4.1.20A of the ED that the debtor (the sponsoring entity) has no intention to sell the junior notes in the near future.
- 96 Another constituent considered that the IASB could clarify which specific characteristics of the secured lending assessment described in paragraph B4.1.20A of the ED are key for the conclusion that this arrangement does not contain CLIs.
- 97 In addition to the circumstance described in paragraph B4.1.20A of the ED, one constituent noted that the IASB could clarify how to apply the CLI guidance in situation where the junior tranche is held by another entity, different from the debtor (the sponsoring entity). Two constituents asked for clarity on circumstances in which the secured lending is financed by a pool of creditors (i.e., the senior tranche is held by more than one creditor). In this context, one constituent suggested replacing “a single creditor” by “class of creditors”.
- 98 One constituent considered that the IASB should clarify the consequences of specifying that the tranches in CLIs have non-recourse features.
- 99 While welcoming the IASB’s effort to respond to the feedback from the PIR participants, one constituent noted that the proposed amendments do not substantially address stakeholders’ comments on the cost of preparation and practicability of the “look-trough” assessment required in paragraph B4.1.22 of IFRS 9.
- 100 On paragraph B4.1.23 of the ED, one constituent recommended to the IASB:
- (a) clarify the meaning of “*leases receivables that have contractual cash flows that are equivalent to SPPI*”;
 - (b) provide application guidance to help entities assess the effects of features such as residual value guarantees on the nature of the lease receivable’s contractual cash flows; and
 - (c) consider specifying that a tranche of CLIs is deemed to meet the criterion in paragraph B4.1.21(b) of IFRS 9 if the underlying pool includes lease receivables for which the residual value risk may not have only a de minimis effect on the contractual cash flows of the individual lease receivables but, in contrast, has such de minimis effect on the contractual cash flows of the tranche.

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- 101 The EFRAG Secretariat notes that clarifications requested by constituents are mostly related to paragraph B4.1.20A of the ED.
- 102 In the understanding of the EFRAG Secretariat, the IASB’s intention was to illustrate a specific circumstance (see AP16A of the November 2022 IASB’s meeting) and the EFRAG Secretariat considers that this paragraph, by its nature, would best placed in the Basis for Conclusion. Not being “principle-based”, this paragraph could reinforce the expectation that any variation of the described fact pattern (e.g., junior tranche held by an entity other than the debtor, pool of creditors, tranche selling scenarios) should be described in the Standard. In general, the EFRAG Secretariat considers that this is not the purpose of a standard.
- 103 Therefore, the EFRAG Secretariat recommends amending the draft response to Question 4 adding a request to the IASB to move paragraph B4.1.20A to the Basis for Conclusion and in the Basis for conclusion clarifying which specific characteristics are key for the conclusion that the described arrangement does not contain CLIs.

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

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:

- (a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and
- (b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.

Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Proposals in the ED

- 104 *This potential amendment arose because IFRS 9 prohibits an entity from reclassifying the amounts accumulated in other comprehensive income (the ‘OCI’) to profit or loss if the entity disposes of an equity investment that was designated using the other comprehensive income option (the ‘OCI presentation option’). Participants from the PIR had indicated that this prohibition meant that the financial statements may not faithfully represent the performance of such investments upon disposal.*
- 105 *To provide users of financial statements with useful, transparent, and more comprehensive information, the IASB proposes amendments to IFRS 7 to require entities to disclose additional information about the amounts accumulated in OCI.*
- 106 *The proposed disclosure requirements are intended to help users of financial statements:*
- (a) *to better evaluate the performance of equity investments designated using the OCI presentation option during the reporting period; and*
 - (b) *to differentiate between changes in fair value related to investments derecognised during the reporting period and changes in fair value related to investments held at the end of the reporting period.*
- 107 *To achieve these objectives, an entity would be required to disclose:*
- (a) *the change in the fair value of investments in equity instruments during the reporting period, showing separately the amount of that change related to investments derecognised during the reporting period and the amount related to investments held at the end of the reporting period; and*
 - (b) *the aggregate fair value of investments in equity instruments (rather than the fair value of each investment) at the end of the reporting period.*
- 108 *The ED also proposes additional guidance in the form of an illustration of one possible way in which an entity could provide some of the disclosures required by paragraphs 11A and 11B1 of IFRS 7.*

¹ 11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

- (a) the reasons for disposing of the investments.
- (b) the fair value of the investments at the date of derecognition.
- (c) the cumulative gain or loss on disposal.

EFRAG's tentative position

Regarding the proposed disclosures relating to investments in equity instruments designated at fair value through other comprehensive income ('FVOCI'), EFRAG notes that its Comment Letter in response to the PIR, mentioned that seventy percent (70%) of respondents from its public consultation considered that an alternative accounting treatment was relevant to meet the objective to reduce or prevent detrimental effects on long-term investments.

Therefore, even though not the ideal solution, EFRAG, at this stage, agrees with the proposed disclosures. EFRAG will be monitoring the IFRS 9 and IFRS 17 *Insurance Contracts* implementation by the insurance industry to assess the impact resulting from non-recycling of equity instruments measured at FVOCI.

Summary of constituents' comments

- 109 Four constituents agreed with EFRAG's response in its draft comment letter including that the disclosures are not the ideal solution. Reasons provided are:
- (a) The IASB proposal would improve the disclosure requirements in IFRS 7, and sequential amendments related to providing additional information about the amounts reflected in OCI.
 - (b) The information will help users of financial statements to evaluate the performance of equity investments at FVOCI upon disposal and to disaggregate changes in fair value related to investments derecognised at the end of the reporting period and changes in FV related to investments held.
- 110 Three constituents did not support the proposed disclosures as they still considered that recycling of realised gains or losses on equity instruments is essential to resolve the existing deficiency in accounting for FVOCI equities and to ensure a proper presentation of the underlying performance of insurers investing long-term in such instruments. Detailed comments are as follows:
- (a) One constituent raised an inconsistency that if the IASB considers the distinction between changes in FV related to investment disposed during the year and changes in FV related to investments still held by entities at the end of the year relevant for the users, this information should arise from the profit or loss statement.
 - (b) Another constituent indicated that the proposed additional disclosure requirements do not address the key concern of the insurance industry. The recycling issue to be an essential element of the future PIR of IFRS 17 *Insurance Contracts*, specifically because of the inherent linkage between IFRS 9 and IFRS 17. Also, they are not aware of users' requests on this topic. In addition, regarding paragraph IG11B of the ED, they stated that only in the case in which such a transfer takes place, the relevant information of the transfer to retained earnings is disclosed.
 - (c) Another constituent did not see the proposed disclosures requirements as an effective response to the request of those who explained that the existing accounting for investments in equity instruments is not adequate, in particular to reflect the performance for those instruments held in a long-term perspective.
- 111 Two constituents supported the proposed disclosures without indicating that it is not an ideal solution, but one of them considered that separate disclosure of the fair value of material investments in FVOCI equity instruments at the end of the reporting period is useful information to help users to evaluate the performance of those equity investments, rather than an entity disclosing the aggregate fair value of FVOCI equity instruments.
- 112 Two constituents did not respond to this question.

- 113 Another constituent indicated a mismatch between the proposed new disclosure requirements and what is shown in the example in the implementation guidance. Paragraph 11A requires disclosure of ‘the amount of change in fair value... during the period’ but the example goes further than this, also setting out the total amount accumulated in other comprehensive income at the start and end of the period. It was suggested to adjust the implementation guidance as it may not always be easy for entities to produce this additional information in the implementation guidance.
- 114 A constituent suggested to replace paragraph 11A (f) of IFRS 7 with separate disclosures for the cumulative changes in the fair value of both investment derecognised during the reporting period and investments held at the end of the reporting period. This is because this would be more appropriate in shedding clarity on ‘realised’ and ‘unrealised’ gains or losses recognised in OCI.

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- 115 Four out of nine who responded supported EFRAG’s draft comment letter while three constituents still considered that disclosures are not the ideal solution, and two constituents supported the proposed disclosures without indicating that it is not an ideal solution.
- 116 The EFRAG Secretariat considers that we have taken into consideration the points raised by the three constituents that considered that it is essential to resolve the existing deficiency in accounting, by stating the following in the draft comment letter. It is mentioned in EFRAG’s draft comment letter that EFRAG will monitor the implementation of IFRS 9 and IFRS 17 and, even though the proposed disclosures are not an ideal solution, we agree, at this stage, with the proposed disclosures. The EFRAG draft comment letter also mentions EFRAG’s response to the PIR on classification and measurement.
- 117 In addition, the EFRAG Secretariat notes that paragraph IFRS 7.11B(c) requires disclosure of the cumulative gain or loss on disposal for derecognised equity instruments measured at FVOCI. The EFRAG Secretariat considers that this disclosure (IFRS 7.11B(c)) in addition to what is being proposed, i.e., disclosure of the change in the fair value of equity instruments during the period, would provide users with useful information. Also, the implementation guidance in paragraphs 11A and 11B of IFRS 7 is an example and does not demonstrate all of the possible ways of applying the disclosure requirements.
- 118 The EFRAG Secretariat, as a result, does not recommend any changes to EFRAG’s draft comment letter.

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

Paragraph 20B of the draft amendments proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C).

Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Proposals in the ED

- 119 This potential amendment arose from the PIR whereby users of financial statements indicated that they need to better understand the effect of contractual terms that could change the timing or amount of contractual cash flows. This information would be important for their analysis and assessment of an entity's future cash flows. An example of such information is the nature and effect of changes based on the occurrence or non-occurrence of a contingent event linked to ESG targets.
- 120 The IASB, therefore, proposed further disclosure requirements aimed at giving users more information about contingent events and their nature and possible effects on contractual cash flows.
- 121 The proposed disclosure requirements are intended to help users of financial statements understand:
- (a) the effect of contractual terms that could change the timing or amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that is specific to the debtor; and
 - (b) the extent of the entity's exposure to such contingent events.
- 122 To achieve these two objectives, an entity would be required to disclose:
- (a) a qualitative description of the nature of the contingent event;
 - (b) quantitative information about the range of changes to contractual cash flows that could result from the contractual terms; and
 - (c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.
- 123 An entity would disclose the information above separately for each class of financial assets measured at amortised cost or fair value through other comprehensive income and for each class of financial liabilities measured at amortised cost.

EFRAG's tentative position

EFRAG considers that the disclosure requirements on contractual terms that could change the timing or amount of contractual cash flows would not provide relevant information for credit-impaired financial assets and for financial assets measured at FVOCI. EFRAG considers that the disclosure proposals would be useful to users. However, EFRAG notes that the proposed disclosure requirements may result in significant operational challenges by preparers, and therefore, in increased implementation and ongoing costs. EFRAG also suggests that the IASB considers the requirements on quantitative disclosures in the context of the forthcoming IASB project on Amortised Cost and Effective Interest Rate applying a more holistic approach.

Therefore, on balance, EFRAG agrees with the proposed disclosure requirements.

Summary of constituents' comments

- 124 Six constituents did not support the proposed disclosures. They indicated that the disclosures would involve high implementation and ongoing costs as follows with a limited value to users:
- (a) Systems for identifying these features in respect of carrying amounts and tracking the range of the potential changes have not been developed during IFRS 9 implementation and afterwards (two constituents).

- (b) The proposed requirements in paragraph 20B(b) of IFRS 7 would oblige entities to provide this information on a period-by-period basis while IFRS 9 requires currently to classify financial assets only at inception of the contract (one constituent).
 - (c) It would take significant time to produce the range of changes to the contractual cash flows as per paragraph 20B(b) of IFRS 7.
 - (d) Limited evidence exists that users need information regarding paragraphs 20B(b) and (c) of IFRS 7. Also, the ED does not include any definition for a 'contingent event' and so could apply to a very wide range of financial assets that financial institutions originate and there would be difficulty to identify the appropriate level of aggregation (one constituent).
- 125 Two constituents were supportive of the proposals including the quantitative disclosures. However, one of them also indicated that practical challenges may arise from banks.
- 126 One constituent supported the proposed disclosures only for assets with ESG-features.
- 127 Two constituents did not respond to this question.
- 128 Based on the concerns raised above on the disclosure proposals, some constituents suggested the following changes to the disclosure proposals:
- (a) The disclosures should be limited to financial assets with ESG-features because especially the quantitative disclosure may result in significant operational challenges and implementation costs as this information would need to be provided for all instruments that contain a contingent event specific to the debtor (two constituents).
 - (b) Keep paragraphs 20B(a) and (c) of IFRS 7 but delete paragraph 20B(b) (one constituent).
 - (c) Delete paragraphs 20B(b) and (c) and keep (a) of IFRS 7 (one constituent).
 - (d) Paragraph 20B should be limited to contingent events non-specific to the debtor other than those related to the time value. For example, prepayment features are specific to the debtor and would be excluded from these disclosures (one constituent).
 - (e) Instead of the proposed quantitative disclosure in paragraph 20B(b) of IFRS 7, there was a suggestion to require disclosure of any contractual terms that have resulted in changes to estimates of future cash flows in the current reporting period that have significantly affected the instrument's carrying value.
 - (f) Instead of the proposed disclosures, add a principle-based disclosure requirement similar to IFRS 7.IG16² in order to meet the disclosure objectives (one constituent).
- 129 Regarding the scope of the disclosures:
- (a) Three constituents were concerned that the proposed disclosures would relate not only to financial assets with ESG features.
 - (b) One constituent proposed not to require disclosures for financial assets measured at fair value through other comprehensive income because the fair value measurement

² Paragraph IG16 of IFRS 7 states '*Information about the nature and extent of risks arising from financial instruments is more useful if it highlights any relationship between financial instruments that can affect the amount, timing or uncertainty of an entity's future cash flows. The extent to which a risk exposure is altered by such relationships might be apparent to users from the disclosures required by this Standard, but in some cases further disclosures might be useful.*'

already captures the effects of changes in timing and amount of contractual cash flows.

- 130 One constituent asked for further clarification regarding paragraph 20B of IFRS 7 which states ‘... to help users of financial statements understand the effect of contractual terms that could change the timing or amount of contractual cash flows ...’ (emphasis added). It was asked the related information shall be provided taking into consideration:
- (a) the probability of the contingent event occurring (or not occurring), and
 - (b) whether the contingent event could account for a characteristic that could have a de minimis effect on the contractual cash flows or is not genuine as described in paragraph B4.1.18 of IFRS 9.

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- 131 The constituents indicated high implementation costs for the quantitative disclosures. Four out of the six that did not support the quantitative disclosures specifically mentioned paragraph 20B(b) of the proposed IFRS 7 amendments. Considering the concerns from the constituents specially regarding paragraph 20B(b) of the proposed IFRS 7 amendments, the EFRAG Secretariat recommends suggesting to the IASB to delete paragraph 20B(b) of the proposed IFRS 7 amendments.
- 132 On the scope of the disclosures (responses received summarised in paragraph 129 above):
- (a) the EFRAG Secretariat considers that focusing the disclosures only on financial assets with ESG features will be in contradictory to EFRAG’s response to Q2 whereby, it is stated that EFRAG supports the generic approach chosen by the IASB not to provide a specific exception from the requirements on contractual cash flow characteristics in IFRS 9 for financial assets with ESG-linked features. It is also stated that EFRAG considers that such an approach is principle based and would provide more flexibility in the future if new instruments with similar types of features will be developed. Therefore, the EFRAG Secretariat does not recommend suggesting that the proposed disclosures should only relate to financial assets with ESG features.
 - (b) It is already mentioned in EFRAG’s draft comment letter that quantitative information on financial assets measured at FVOCI adds less relevant value. Therefore, in order to be explicit, the EFRAG Secretariat recommends adding a sentence thereby suggesting to exclude the proposed quantitative disclosures for financial assets measured at FVOCI.

Question 7 - Transition

Paragraphs 7.2.47 – 7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105 – BC107 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Proposals in the ED

- 133 *The IASB is proposing transition requirements for the proposed amendments to IFRS 9 (paragraph 7.2.48 of the ED) consistent with those that applied on initial application of IFRS 9 (paragraph 7.2.15 of IFRS 9).*
- 134 *Therefore, an entity shall apply the proposed amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, but will not be required to restate prior periods to reflect the application of such amendments.*
- 135 *In addition, considering that the proposed amendments result in a change in the classification of financial assets, the IASB decides to require an entity to disclose information about the measurement of these financial assets immediately before and after the amendments are applied.*
- 136 *In particular, an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the proposed amendments:*
- (a) the previous measurement category and carrying amount determined immediately before the entity applied the proposed amendments; and*
 - (b) the new measurement category and carrying amount determined immediately after the entity applied the proposed amendments.*
- 137 *This is to enable users of financial statements to understand the change in the classification of financial assets and its effect on an entity's financial statements.*

EFRAG's tentative position

EFRAG agrees with the proposed requirements for transition set out in paragraphs 7.2.47 – 7.2.49 of the ED. EFRAG generally supports retrospective application of new, or amendments to existing, Standards and Interpretations.

Summary of constituents' comments

- 138 Eight out of eleven respondents commented on this question.
- 139 Five constituents supported the proposed transition requirements. Two constituents agreed with the EFRAG's response of the DCL.
- 140 Two constituents suggested the IASB to allow the early adoption, in particular for the proposed clarifications to the general SPPI requirements. If the final amendments were to be issued as a single package, one constituent suggested the IASB to permit entities to reflect in the (possible) restated financial statements only some of the requirements in the final amendments.
- 141 One constituent considered that a transition period of 12 to 18 months after the issuance of the final amendments would give sufficient time to stakeholders to prepare for the implementation of the new requirements.
- 142 One constituent suggested the IASB to decouple the proposed amendments to derecognition of financial liabilities settled through electronic transfer and consider it in a separate research project.
- 143 One constituent considered that a retrospective application of the new requirements may require significant work to recalculate the impact since the initial recognition of the financial assets and therefore the cost of the retrospective approach may outweigh the benefit for users. This constituent asked for transition requirements in accordance with a prospective approach (paragraphs 5.6.1 – 5.6.7 of IFRS 9).

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- 144 Considering the feedback received from constituents, the EFRAG Secretariat does not recommend any changes to Question 7 in the draft comment letter.
- 145 Constituents that supported the IASB's proposal of the ED did not disagree with the EFRAG's response of the DCL.
- 146 In addition, in the DCL EFRAG encourages the IASB to prioritise the publication for the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments, allowing entities to apply them as early as possible. In such a case, EFRAG suggests to the IASB to consider individual transition requirements to allow for a separate early adoption.

Appendix 2 – List of respondents

1 Comment letters received:

No	Name of constituent	Country	Type/Category
CL 001	EFFAS	Germany	User organisation
CL 002	Hungarian Banking Association	Hungary	Preparer organisation
CL 003	OIC	Italy	National Standard Setter
CL 004	Erste Group Bank	Austria	Preparer
CL 005	ESBG	Belgium	Preparer organisation
CL 006	GDV	Germany	Preparer organisation
CL 007	Accountancy Europe	Belgium	Professional membership organisation
CL008	DASB	Netherlands	National Standard Setter
DCL1	Draft 1	France	
DCL2	Draft 2	United Kingdom	
DCL3	Draft 3	France	