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### **Draft** Comment Letter

*You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.*

*Comments should be submitted by **30 June 2023**.*

International Accounting Standards Board  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom

[XX July 2023]

Dear Mr Barckow,

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

On behalf of EFRAG, I am writing to comment on the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)*, issued by the IASB on 21 March 2023 (the 'ED' / 'proposed amendments').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of final IFRS Standards in the European Union and European Economic Area.

EFRAG welcomes the IASB's efforts to address the concerns of stakeholders raised in the context of the Post-implementation Review of IFRS 9 *Classification and Measurement* (the 'PIR') and a request to the IFRS Interpretations Committee (the 'IFRS IC'). This ED mainly responds to a request from stakeholders to clarify some aspects of the application guidance for assessing the contractual cash flow characteristics of financial assets and accounting for the settlement of a financial liability using an electronic payment system.

#### **Summary of EFRAG's views on the ED**

In general, EFRAG welcomes the IASB's ED and agrees with the proposed amendments to the classification and measurement of financial instruments.

EFRAG considers that the proposed clarifications to the general sole payments of principal and interest ('SPPI') requirements would provide a good basis for evaluating whether contractual cash flows of financial assets with ESG-linked or similar features meet SPPI requirements. Considering the rapid increase in financial assets with ESG-linked features in Europe, EFRAG would like to remind that this solution is expeditiously needed. Therefore, EFRAG encourages the IASB to

prioritise the publication of the proposed clarifications to the general SPPI requirements over the other IFRS 7 *Financial Instruments: Disclosures* ('IFRS 7') and IFRS 9 *Financial Instruments* amendments ('IFRS 9'), allowing entities to apply them as soon as possible.

#### *Derecognition of a financial liability settled through electronic transfer*

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, as 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.

#### *Classification of financial assets — contractual terms that are consistent with a basic lending arrangement*

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.

#### *Classification of financial assets — financial assets with non-recourse features*

EFRAG supports the IASB decision to clarify the notion of ~~at 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.

### Classification of financial assets — contractually linked instruments

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. However, EFRAG considers that the specific circumstance described in this paragraph could be better represented in the Basis for Conclusions. Therefore, EFRAG suggests the IASB to move this paragraph to the Basis for Conclusions.

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.

### Disclosures

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.

Furthermore, 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 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 suggests deleting paragraph 20B (b) of the proposed IFRS 7 amendments. agrees with the proposed disclosure requirements.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Didrik Thrane-Nielsen, ~~Laura Abeni~~, Galina Borisova, Sapna Heeralall or me.

Yours sincerely,

Wolf Klinz

**Chair of the EFRAG FRB**

## Appendix - EFRAG's responses to the questions raised in the ED

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

#### 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?

#### EFRAG's response

- 1 EFRAG notes that the proposed amendments do not result from feedback on the PIR but from feedback on a tentative agenda decision on a submission to IFRS IC.
- 2 EFRAG welcomes the IASB's decision to address stakeholder concerns through a standard-setting process. A standard-setting process would allow for proper discussion and to establish the appropriate transition requirements.
- 3 Subject to some minor clarifications, EFRAG welcomes the proposed accounting alternative to derecognise a financial liability settled using an electronic payment system before the cash is delivered by the entity, i.e., before the settlement date<sup>1</sup>.

3

#### Background

- 4 EFRAG notes that the PIR confirmed that the recognition and derecognition requirements in IFRS 9 generally work as intended. EFRAG also notes that the initial submission to IFRS IC related to the derecognition of a trade receivable. However, the respondents to the tentative agenda decision were concerned that the IFRS IC tentative agenda decision could be extended to the derecognition of trade payables where significant diversity in practice was noted.
- 5 EFRAG agrees that the transaction, as described in the fact pattern submitted to the IFRS IC, is not a regular way purchase or sale of a financial asset<sup>2</sup> as defined in Appendix A of IFRS 9 and, therefore, trade date<sup>3</sup> accounting cannot be applied.
- 6 EFRAG also agrees that paragraphs 3.2.3(a) and 3.1.1 of IFRS 9 require:
  - (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.

<sup>1</sup> Paragraph B3.1.6 of IFRS 9 defines the settlement date as the date that an asset is delivered to or by an entity. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

<sup>2</sup> A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

<sup>3</sup> Paragraph B3.1.5 of IFRS 9 defines the trade date as the date that an entity commits itself to purchase or sell an asset. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

- 7 EFRAG notes that all the above requirements relate to the settlement of financial assets and not to the settlement of financial liabilities. The IASB proposal to add to the application guidance paragraph B3.1.2A of the ED clarifies that settlement date accounting applies to the recognition and derecognition of both: financial assets and financial liabilities.
- 8 EFRAG highlights that the terms “settlement date” and “settlement date accounting” are not currently used in IFRS 9 other than with a reference to a regular way purchase or sale of a financial asset. In EFRAG’s view applying these concepts to transactions that are neither “regular way transactions” nor transactions related to financial assets could be challenging.
- 9 Paragraph BC10 of the ED states that “except for a regular way purchase or sale of financial assets, IFRS 9 requires an entity to apply settlement date accounting when recognising or derecognising financial assets or financial liabilities”, however, the settlement date accounting, as described in paragraph B3.1.6 of IFRS 9, refers to a financial asset and not to a financial liability. The settlement date is described in the same paragraph as “the date that an asset is delivered to or by an entity” and not the date the liability is discharged. Therefore, EFRAG considers that paragraph B3.1.6 of IFRS 9 should be amended to include how the settlement date accounting applies to a financial liability.-
- ~~10 Another option would be to clarify that when referring to the settlement date accounting, the ED refers to “cash” which is indeed a financial asset, and which is used to settle a liability. In this case, there is no need to clarify in paragraph B3.1.2A of the ED that settlement date accounting applies to a financial liability. In the rest of the ED proposals “the settlement date” could be replaced by “before cash is transferred from an entity’s bank account”.~~
- 4110** EFRAG notes that the core driver of the issue is the fact that two entities are not settling cash rights and obligations directly but by using a system that implies the use of one or more intermediaries outside the control of either of the two entities. Furthermore, complicating factors include that the two entities might either have explicitly agreed that the paying entity is freed from its obligation towards the receiving entity either when the paying entity has transferred cash from its bank account or when the receiving entity has received the payment. A further complication is that the paying entity does not necessarily know when the receiving entity has received the payment (cash on the receiving entity’s bank account) and the receiving entity does not necessarily know when the paying entity executed the payment.
- 4211** Due to the structural issues raised when using an intermediary, EFRAG acknowledges that the timing of recognition and derecognition of a transaction involving an intermediary may be different for the two entities involved in the transaction. While there may be the possibility for the paying entity to derecognise the cash before the settlement date, for the receiving entity the question may be whether to recognise a receivable to the payment system operator during the payment lead time.
- 4312** When settlement occurs with the use of an independent intermediary, EFRAG notes the need for a practical rule-based expedient for the paying entity in the situations where the paying entity is legally freed from its obligation to the receiving entity when the receiving entity has received the payment.
- 4413** The need for a practical rule-based expedient is dependent upon the time used by the intermediary to transfer the settlement. When the settlement time approaches to zero or overnight the need for a rule-based expedient diminishes. EFRAG considers that the settlement time for the payment systems used in EU/EEA is relatively short, so the issue may be less prevalent compared to other jurisdictions.

*Criteria for derecognising a financial liability before the settlement date*

- 4514** For the proposed accounting alternative to be workable, defining the criteria when it can be applied is of high importance. EFRAG considers that the combination of three criteria, proposed by the IASB in paragraph B3.3.8 of the ED, achieves this objective.
- 4615** To be able to derecognise a financial liability before the settlement date, it must be virtually certain that the payment transaction will be executed. This requires that the entity has initiated the payment instruction, but the timing of derecognition of the financial liability and the cash used to settle it may come later. The first two criteria of an entity having “no ability to withdraw, stop or cancel the payment instruction” and “no practical ability to access the cash to be used for settlement as a result of the payment instruction” address it from the entity’s perspective.
- 4716** EFRAG understands that the second criterion should cover situations when an entity has no ability to access cash even though the cash has not yet been transferred from the entity’s bank account. For example, the situations when the cash is part of the entity’s cash balance with the bank, but the ‘available’ balance is reduced by the amount of the payment instruction. Nonetheless, EFRAG acknowledges that, according to some, the criteria in paragraph B3.3.8(b) of the ED could be seen as duplicating the criteria in paragraph B3.3.8(a), therefore recommends the IASB to clarify the interactions between the two.
- 4817** EFRAG questions the use of “practical” ability in the proposed paragraph B3.3.8(b) of the ED. We note that this imputes a notion of assessment into a proposed rule-based accounting expedient. EFRAG recommends the IASB to clarify the reason to use the word “practical” in the proposed paragraph B3.3.8(b) and not using it in paragraph B3.3.8(a).
- 4918** EFRAG also agrees that to be eligible to apply the proposed accounting alternative, the electronic payment system used by the entity must have insignificant settlement risk. The ED “defines” settlement risk in paragraph BC33 as “the risk that a transaction will not be settled (or completed) and therefore that the debtor will not deliver cash to the creditor on the settlement date”. Paragraph BC33 of the Basis for Conclusions of the ED further states that “for the purposes of the requirements in paragraphs B3.1.6 and B3.3.1 of IFRS 9, when a financial liability has been discharged by paying cash to a creditor, the creditor is no longer exposed to any settlement risk associated with the transaction”.
- 2019** EFRAG notes, however, that “settlement risk” is a new notion in IFRS 9 and that defining it in Appendix A could be more appropriate than in the Basis for Conclusions.
- 2420** EFRAG suggests that the settlement risk associated with an electronic payment system (paragraph B3.3.8(c)) should be evaluated on a continuous basis to cater for the situations when the payment system cannot be trusted (e.g., due to the lack of collateral or other issues). A way of clarifying this might be to add “as long as the requirements in paragraph B3.3.8 are fulfilled” to the end of paragraph B3.3.10.
- 2221** EFRAG appreciates the clarification of the conditions of when an electronic payment system is deemed to have insignificant settlement risk and the clarification that it excludes the situations when an entity is unable to deliver cash on the settlement date (paragraph B3.3.9 of the ED). However, EFRAG questions the need for the requirement of “the payment instruction follows a standard administrative process”. EFRAG further suggests clarifying what is meant by a “short” time frame and “insignificant” settlement risk. EFRAG considers that the IASB could do this by providing a “negative” definition or by referring to a legal or regulatory framework.
- 2322** EFRAG notes that for the payment systems where one can initiate payments with a future settlement date, the time between initiating a payment instruction and the cash being

delivered might be long. Therefore, EFRAG suggests clarifying in paragraph B3.3.9 of the ED that “the time between initiating a payment instruction *when criteria (a) and (b) in paragraph B3.3.8 are fulfilled* and the cash being delivered is short”.

### Scope

**2423** EFRAG acknowledges the IASB’s decision to limit the proposed accounting alternative to a narrow-scope fact pattern relating to discharging of financial liabilities using an electronic payment system when the specified criteria described above are met.

**24** EFRAG notes that widening the scope of the proposed solution to other types of settlements or to the asset side might give rise to a set of conceptual and practical challenges, that might go beyond a narrow-scope amendment. For example, including the asset side would require defining cash and will necessitate a much bigger and broader project. The same is true for a comprehensive review of the derecognition requirements.

**25** However, as an intermediate solution, EFRAG considers that additional disclosures about an entity’s cash recognition/derecognition accounting policy ~~could~~would be useful ~~as an intermediate solution~~.

**26** EFRAG questions the need to define a payment system as “electronic” and considers that the criteria in paragraph B3.3.8 (a)-(c) should be sufficient to define any payment system and allow for a more principle-based approach to the proposed accounting alternative.

**27** EFRAG also supports the IASB’s decision to apply the proposed derecognition option to all payments using the same payment system (provided it has insignificant settlement risk, ~~see criteria below~~). In EFRAG’s view, this requirement responds to the questions about the level for which the proposed accounting alternative should be applied (by settlement market, country, or payment system).

### Conclusion

**28** EFRAG acknowledges that this topic could raise conceptual questions on the recognition and derecognition requirements for financial assets and liabilities in IFRS 9. However, the responses to the PIR did not show this as a concern.

**29** In EFRAG’s view, a fundamental change to the current derecognition requirements is not warranted and the proposed accounting alternative will be sufficiently narrow in scope, limit unintended consequences, and provide useful information.

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

**31** EFRAG however suggests amending paragraph B3.1.6 to include how the settlement date accounting applies to a financial liability and to add the disclosures about cash recognition and derecognition policies used by the entity.

**32**—For avoidance of doubt, EFRAG suggests the IASB to clarify in the application guidance that the other side of the accounting entry when applying the proposed solution should be cash and not any other type of financial liability.

**32**

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

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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?

**EFRAG’s response**

**Background**

- 33 EFRAG welcomes the IASB’s decision to address the issue of classification and measurement of financial assets with ESG-linked features raised by respondents (including EFRAG) during the PIR.
- 34 EFRAG reminds that the solution is expeditiously needed given the constantly growing investments in financial instruments with ESG-linked features and welcomes the IASB efforts in this respect. ~~However,~~ EFRAG encourages the IASB to prioritise the publication of 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.
- 35 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. EFRAG considers that such an approach is principle based and ~~would will~~ provide more ~~flexibility robustness~~ in the future if new instruments with similar types of features ~~will would~~ be developed.
- 36 EFRAG notes that European constituents from the banking sector (both preparers and users) considered that amortised cost<sup>4</sup> ~~would will~~ be ~~the most an~~ appropriate measurement ~~basis~~ for financial assets with ESG-linked features and ~~would will~~ provide useful information for the users of financial statements ~~compared to fair value measurement~~.
- 37 EFRAG considers that the clarifying amendments proposed in the ED ~~would will~~ provide a good basis for evaluating whether contractual cash flows of financial assets with ESG-linked or similar features meet SPPI requirements. However, as a general observation, EFRAG suggests that the IASB include certain considerations and explanations noted in the Basis for Conclusions in the core text of the ED to avoid future misinterpretation of the Standard. Examples are the contents of paragraphs BC67, BC69, and BC72.

<sup>4</sup> European constituents from the insurance industry note that such financial ~~instruments assets~~ would in many cases be classified at FVOCI, in order to reduce or eliminate accounting mismatches with the related business model for insurance liabilities. As FVOCI is a mixed approach that combines fair value on balance sheet and amortised cost in profit or loss, it has the advantage of providing informative value from the perspectives of both the measurement-bases.



### Elements of interest in a basic lending arrangement

38 EFRAG welcomes the clarification (paragraph BC55 of the ED) that the elements of interest specified in paragraph B4.1.7A of IFRS 9 (consideration for the time value of money, credit risk, other basic lending risks, such as liquidity risk, costs associated with holding the financial asset, and a profit margin) is not an exhaustive list of elements that are consistent with a basic lending arrangement. In EFRAG’s view, this would allow to consider some ESG risks as being a part of these elements.

39 EFRAG agrees that not all financial assets with ESG-linked features may have contractual cash flows consistent with the basic lending arrangement. In this context, EFRAG appreciates the clarifications provided in paragraph B4.1.8A of the ED when contractual cash flows are considered to be inconsistent with such an arrangement, except for the “magnitude” requirement described below.

40 EFRAG notes the IASB’s approach to consider different elements of interest separately and to focus on *what* entity is compensated for rather than *how much*. EFRAG notes that this approach is not new and was already referred to in paragraph BC4.182(b) of IFRS 9. However, EFRAG sees a contradiction between a requirement of not focusing on “how much” in the beginning of paragraph B4.1.8A of the ED and the requirement to assess the “magnitude” of changes in basic lending risks and costs at the end of the same paragraph.

41 Moreover, EFRAG questions the need for the clarification that to meet SPPI requirements, the change in contractual cash flows should be aligned with the direction and magnitude of the change in basic lending risks or costs. EFRAG considers that the word “magnitude” creates uncertainty, and that this requirement is already covered by the concept of leverage in paragraph B4.1.15 of IFRS 9. Considering that this requirement relates to *all* changes in contractual cash flows, EFRAG is concerned about unintended consequences for existing financial assets currently meeting the SPPI requirements (for example in case of preventive rates).

3942 EFRAG also recommends 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 instead of “magnitude” by clarifying how it applies to changes in contractual cash flows that are specific to the debtor.

EFRAG considers that examples of such financial instruments provided in paragraphs B4.1.13 and B4.1.14 of the ED are useful but suggests adding further examples better illustrating the concepts used in the ED (the requirements of paragraphs B4.1.8A and B4.1.10A), such as “aligned with the direction and magnitude of” or “contingent event must be specific to the debtor”. Furthermore, EFRAG suggests that examples of more complex financial instruments (with, for example, interest rate adjustments when capital adequacy cost changes for the lender, examples or when interbank interest rates change or examples with the mixture of the three ESG targets) would help to address potential application questions.

4043 EFRAG agrees with the IASB’s reasoning that if a particular arrangement is widespread in a particular market this fact does not make this arrangement automatically a “basic lending arrangement” and that further assessment is needed.

41 ~~EFRAG notes the IASB’s approach to consider different elements of interest separately and to focus on *what* entity is compensated for rather than *how much*. EFRAG notes that this approach is not new and was already referred to in paragraph BC4.182(b) of IFRS 9. However, EFRAG sees a contradiction between a requirement of not focusing on “how much” in the~~

~~beginning of paragraph B4.1.8A of the ED and the requirement to assess the “magnitude” of changes in basic lending risks and costs at the end of the same paragraph.~~

~~42 — Moreover, EFRAG questions the need for the clarification that to meet SPPI requirements, the change in contractual cash flows should be aligned with the direction and magnitude of the change in basic lending risks or costs. EFRAG considers that the word “magnitude” creates uncertainty, and that this requirement is already covered by the concept of leverage in paragraph B4.1.15 of IFRS 9. Considering that this requirement relates to *all* changes in contractual cash flows, EFRAG is concerned about unintended consequences for existing financial assets currently meeting the SPPI requirements (for example in case of preventive rates).~~

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

~~4344~~ EFRAG welcomes the IASB clarifying [\(in paragraph BC55 of the ED\)](#) that for the purposes of the SPPI assessment, *all* variability in contractual cash flows over the life of an instrument [\(financial asset\)](#) should be taken into account, and not only those relating to one of the elements of interest mentioned in paragraph B4.1.7A of IFRS 9.

~~4445~~ EFRAG also notes that the probability of a contingent event should not be taken into account when assessing the changes in cash flows on the occurrence of *any* contingent event and welcomes the clarification that non-genuine contractual terms (paragraph B4.1.18 of IFRS 9) should not be considered. In addition, EFRAG suggests the IASB to clarify that de-minimis rule from the same paragraph also remains applicable.

~~4546~~ Furthermore, EFRAG notes that “contingent event” is not defined in IFRS Accounting Standards and considers that providing a definition and/or examples would be useful. For example, paragraph BC69 of the ED states that “the occurrence of a contingent event (other than those associated with the time value of money or prepayment features) must be specific to the debtor”. It could be concluded from this statement that diverse types of contingent events could exist, and more clarifications would be appreciated.

~~4647~~ EFRAG also notes that the text “(other than those associated with the time value of money or prepayment features)” is included in paragraph BC69 but not in ~~the~~ paragraph B4.1.10A of the ED. EFRAG recommends to add the clarification of “other than those associated with the time value of money or prepayment features” to paragraph B4.1.10A to avoid misunderstanding related to the sentence “For a change in contractual cash flows to be consistent with a basic lending arrangement, the occurrence (or non-occurrence) of the contingent event must be specific to the debtor”.

~~48~~ EFRAG welcomes the IASB defining the meaning of “specific to the debtor” in paragraph B4.1.10A of the ED as “the occurrence of a contingent event ... if it depends on the debtor achieving a contractually specified target, even if the same target is included in other contracts for other debtors”.

~~4749~~ [In relation to the Relevant for separate financial statements, EFRAG recommends the IASB to clarify that contingent events “specific to the debtor” includes contingent events “specific to the debtor or an entity controlled by the debtor”.](#)

~~4850~~ ~~However,~~ EFRAG questions the IASB’s reasoning in paragraph BC67 of the ED, which led to a conclusion 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”. EFRAG notes that, in some circumstances, loans that currently meet SPPI requirements include clauses specific to the creditor that are related to “non-financial variable” such as, for example, cost driven by capital requirements. Therefore, EFRAG is concerned about potential unintended consequences of this requirement on some of the loans with clauses

specific to the creditor (such as additional-increased cost clauses, permitting the lender to pass an increase in (funding) costs to the borrower, or interest rate increases when the tax circumstances of a lender change).

**4951** The ED further states that “the resulting cash flows must represent neither an investment in the debtor nor an exposure to the performance of specified assets (see also paragraphs B4.1.15–B4.1.16)”. In EFRAG’s view, the term “investment in the debtor” is quite broad and could be better defined by “represent an equity-like risk”.

**5052** EFRAG was informed that sometimes, the meeting of an ESG target could be linked to the performance of an entity’s asset. In this case it is unclear how this requirement would interact with the requirement that the contingent event should be specific to the debtor. Therefore, EFRAG suggests that further examples be included.

**5153** EFRAG notes that the proposed amendments would allow more financial assets to be measured at amortised cost and the gross carrying amount of these financial assets will have to be measured in accordance with the requirements of paragraph B5.4.6. Therefore, EFRAG suggests that the impact of the proposed amendments on the forthcoming IASB project on *Amortised Cost and Effective Interest Rate* be considered in due course.

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

#### 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?

#### EFRAG’s response

**5254** EFRAG welcomes the IASB’s effort to respond to the feedback from the PIR participants and to clarify the meaning of “non-recourse” financial asset.

**5355** In its Comment Letter to the PIR, EFRAG acknowledged that diversity in practice was observed relating to the application of the non-recourse guidance and its interaction with the contractually linked instruments and suggested the IASB to provide additional guidance to address the related issues.

**5456** EFRAG agrees with the IASB’s conclusion that typically “non-recourse” refers to the missing personal liability of a debtor beyond any underlying asset(s) pledged as collateral.

**5557** EFRAG notes that in case of “normal” collateralised debt the creditor has a claim on the debtor and in addition, the protection of the underlying asset(s) only to the extent that the borrower is unable to make the contractual payments through other means.

**5658** EFRAG agrees with the IASB’s considerations that, in most cases, a non-recourse financial asset differs from a “normal” collateralised debt because:

- (a) contractual payments over the life of the instrument are restricted to the cash flows generated by the underlying asset(s); and

(b) the creditor’s ultimate claim is limited to the value of the underlying asset(s).

A typical example of this non-recourse financial asset are contractually linked instruments.

**5759** EFRAG welcomes the IASB’s decision to consider “non-recourse” a feature of certain financial assets, rather than a separate category of financial assets. This definition helps, in particular to clarify the description of transactions containing multiple contractually linked instruments. Furthermore, EFRAG welcomes the fact that the IASB considers “non-recourse features” as an explicit contractual term of the financial asset.

**5860** However, EFRAG notes that the IASB is introducing a new concept into the Standard (the wording “non-recourse features” is not present in the current version of IFRS 9) and that the definition of financial assets with non-recourse features provided in B4.1.16A of the ED is more restrictive than the general meaning assigned to “non-recourse” by current practice.

**5961** For example, EFRAG notes that current practice considers residential mortgage loans with fixed interest rate, downpayments that trigger default if not fulfilled, and the option for the borrower to exchange the residual loan obligation for a specified asset(s) – either during the life of the loan or in event of default – as a “non-recourse” financial asset.

**6062** Paragraph B4.1.16 of IFRS 9 refers to a “non-recourse” financial asset as a case when a creditor’s claim is limited to specified assets of the debtor (e.g., in the case of default) **or** the cash flows from specified assets (e.g., over the life of the financial asset). Instead, paragraph B4.1.16A of the ED states that a financial asset with non-recourse features has limited cash flows **both** over the life of the financial asset and in the case of default.

**6163** 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.

**6264** EFRAG agrees with the fact that the borrower’s legal and capital structure, loan-to-value ratio and the presence of subordinated amounts are relevant and discriminatory factors in determining whether the contractual cash flows are SPPI.

**6365** Nevertheless, EFRAG questions the reference to “equity instruments” in paragraph B4.1.17A (b) of the ED. EFRAG notes that equity instruments do not create a shortfall and thus do not have the ability to absorb any shortfall in cash flows generated by the underlying assets. Therefore, EFRAG suggests the IASB to delete this reference.

**6466** As a last point, EFRAG notes that the proposed clarifications on the general SPPI requirements have a high priority for European stakeholders due to the rapid increase in financial assets with features linked to ESG concerns. EFRAG agrees with the IASB’s consideration that clarifying both non-recourse and CLIs requirements at the same time as the general SPPI requirements would maximise the benefits of the proposed amendments. However, EFRAG encourages the IASB to prioritise the publication of the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments.

#### Question 4 – Classification of financial assets – contractually linked instruments

##### 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?

##### *EFRAG’s response*

**6567** EFRAG welcomes the IASB’s effort to respond to the feedback from the PIR participants and to clarify the requirements in paragraphs B4.1.20 – B4.1.26 of IFRS 9 for investments in contractually linked instruments.

**6668** As mentioned before, in its Comment Letter in response to the IASB’s request for information as a part of the PIR, EFRAG acknowledged several issues related to the contractually linked instruments requirements and the interaction with the non-recourse guidance and suggested the IASB to provide additional guidance to address these issues.

**6769** As a general comment and as already highlighted in EFRAG’s response to Question 3, EFRAG notes that the proposed clarifications on general SPPI requirements have a high priority for European stakeholders due to the rapid increase in financial assets with features linked to ESG concerns. EFRAG agrees with the IASB’s consideration that clarifying both non-recourse and CLIs requirements at the same time as the general SPPI requirements would maximise the benefits of the proposed amendments. However, EFRAG encourages the IASB to prioritise the publication of the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments.

##### *Scope*

**6870** EFRAG supports the clarifications proposed by the IASB in paragraph B.4.1.20 of IFRS 9 to the definition of contractually linked instruments. EFRAG notes that these proposed amendments help to clarify the scope of transaction to which the CLI requirement apply and the distinction between CLI transactions and financial assets with non-recourse features.

**6971** In EFRAG’s understanding, the IASB added the following elements to the definition of CLI in the ED:

##### *“Waterfall payment structure”*

**7072** EFRAG notes that the IASB decided to include the wording from paragraph BC4.26 of the Basis for Conclusion on IFRS 9 in the paragraph B.4.1.20 of IFRS 9.

**7473** EFRAG agrees with the IASB’s consideration that contractual linkage between tranches determines the order in which tranches receive cash flows and creates concentrations of credit risk in a CLI. This means that for each set of interest or principal payments due, payments to the most senior tranche are prioritised over any payments to more junior tranches. Therefore, EFRAG supports this proposed clarification.

### “Disproportionate allocation of losses”

**7274** EFRAG notes that the disproportionate allocation of “losses” between the holders of different tranches is a direct consequence of the waterfall payment structure.

**7375** EFRAG agrees with the IASB’s consideration that the waterfall structure specifies not only the order in which payments are made but also the order and proportion in which any losses are allocated to the tranches. This means that the contractual linkage reallocates credit risk amongst the tranche holders.

**7476** EFRAG also agrees with the IASB’s conclusion that the disproportionate allocation of “losses” between the holders of different tranches is a factor that distinguishes CLIs from financial assets with non-recourse features. Typically, financial assets that have only non-recourse features participate in the performance of the underlying assets proportionately and there is no concentration of credit or cash flows risk.

**7577** However, EFRAG recommends the IASB to change the wording “*disproportionate allocation of losses*” to “disproportionate allocation of **cash flows**”.

**7678** Appendix A of IFRS 9 defines “credit loss” as “*the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., reflecting any cash shortfalls), discounted at the original effective interest rate*”.

**7779** EFRAG acknowledges the fact that, according to many, in a CLI the contractually defined cash flows under the waterfall structure are always equal to the cash flows that a holder expects to receive. Following this reasoning, then, a CLI could never give rise to a loss.

### “Non-recourse features”

**7880** EFRAG agrees with the IASB’s consideration that, in a CLI structure, payments on the tranches come only from the cash flows generated by the underlying pool of financial instruments, which are segregated from the issuer’s other assets.

**7981** Accordingly, EFRAG supports the proposed clarification that CLIs tranches have non-recourse features as defined in paragraph B4.1.16A of the ED.

**8082** Furthermore, EFRAG agrees with the IASB’s consideration that the distinguishing characteristics described above are interconnected, rather than independent of each other. Therefore, EFRAG supports the IASB’s proposed amendments which implicitly require that an instrument must have all these characteristics to fall within the scope of the requirements in paragraphs B4.1.20 – B4.1.26 of IFRS 9.

**8183** In addition, EFRAG supports the IASB conclusion that the term “contractually linked” refers to a transaction for which the relationship between the different tranches is specified in the contractual terms of the instruments. EFRAG considers this to be an important structural difference between CLIs and financial assets with non-recourse or general subordination characteristics.

**8284** EFRAG therefore suggests that the IASB explicitly includes this element in paragraph B4.1.20 of IFRS 9. A clear statement in this regard would reinforce the definition of CLI and ensure the consistent application of the requirements.

**8385** In addition, EFRAG suggests that the IASB improves the wording of paragraph B4.1.20 to clarify that the requirements for non-recourse financial assets would not apply to CLIs.

**86** 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.

**8487** However, EFRAG ~~suggests~~ recommends the IASB to move this paragraph to the Basis for Conclusions. EFRAG considers that the specific circumstance described in this paragraph could be better represented in the Basis for Conclusions, where the IASB could also clarify which specific characteristics of the described secured lending assessment are critical for the conclusion that this arrangement ~~does not contain~~ is not a CLIs.

**8588** EFRAG agrees with the IASB's consideration that this type of secured lending arrangement is generally negotiated between the creditor (e.g., a bank) and the debtor (e.g., a customer / sponsoring entity) and its nature is different from a transaction in which multiple contractually linked instruments are issued to the holders of the tranches.

**8689** EFRAG also appreciates the IASB's effort not to link the debtor consolidation of the structured entity and the CLIs' requirements. EFRAG has been informed that, in general, such structures are tailored to avoid the consolidation of the structured entity by the customer / sponsor. Furthermore, a possible connection would have led to several application issues, considering that in many cases the conclusion whether or not the structured entity is consolidated constitutes a significant area of judgement.

**8790** Accordingly, EFRAG suggests that the IASB does not limit the conclusion in paragraph B4.1.20A of the ED to the "senior debt instrument", but to refer more generally to the "debt instruments" issued by the structured entity.

**8891** EFRAG considers that limiting the conclusion to senior debt instrument would unreasonably and potentially include the junior debt instrument, issued in the same arrangement, within the scope of transactions to which the CLIs requirements could apply.

#### *Underlying pool of financial instruments*

**8992** 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.

**9093** EFRAG agrees with the IASB's conclusion that financial instruments that are not entirely in scope of IFRS 9 could have cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding (e.g., lease receivables).

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

**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?

**EFRAG’s response**

**9194** In its Comment Letter in response to the PIR, EFRAG considered that the IASB should expeditiously review the non-recycling treatment of equity instruments within IFRS 9, testing whether the IASB’s Conceptual Framework would justify the recycling of FVOCI gains and losses on such instruments when realised. EFRAG’s Comment Letter 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.

**9295** EFRAG, therefore, welcomes the IASB’s efforts to review this topic. EFRAG will be monitoring the implementation of IFRS 9 and IFRS 17 *Insurance Contracts* to ascertain the extent of impact resulting from non-recycling of equity instruments measured at FVOCI.

**9396** Taking the above into consideration, EFRAG, at this stage, agrees with the proposed disclosures. This is because the disclosure requirements will help provide users with transparent and more comprehensive information about the performance of the relevant equity instruments since acquisition, albeit not being the ideal solution. EFRAG also considers that the disclosures will not result in significant costs as the entities would have access to this information.

**9497** Furthermore, EFRAG considers that the illustrative example proposed in the ED provides a useful way of applying the disclosure requirements. This is because the users can clearly identify, for example, the transfers to equity following disposal of the equity instruments designated at FVOCI, in order to make their assessments. Nevertheless, EFRAG notes that the transfer of any cumulative gain or loss relating to the disposal from other comprehensive income to retained earnings (as illustrated in paragraph IG11B of the ED) is not mandatory. EFRAG considers that without information on the cumulative gain /loss of instruments disposed of (both in the reporting period and in prior reporting periods) the proposed disclosure would not achieve the objective of better represent depicting the financial performance of equity investments.

**9598** In addition, EFRAG recommends the IASB to reconsider the use of non-controlling interest in paragraphs IG11A and IG11B as this might create confusion for interests creating significant influence. Therefore, EFRAG suggests that the IASB mention that the equity instruments are in scope of IFRS 9.



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

**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?

**EFRAG’s response**

**9699** EFRAG welcomes the 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.

**97100** EFRAG considers that the disclosure requirements would not provide relevant information for credit-impaired financial assets and should only be applied to non-credit impaired financial assets. Moreover, EFRAG considers that the measurement at fair value already captures the effects of changes in timing and amount of financial instrument’s contractual cash flows. Therefore, EFRAG notes that the quantitative disclosure requirements for financial assets measured at FVOCI adds less relevant value. Required disclosures about fair value measurements are generally expected to be located in IFRS 13 Fair Value Measurement. Therefore, EFRAG suggests excluding the proposed quantitative disclosures for financial assets measured at FVOCI.

**98101** Accordingly, EFRAG considers that information on the description of the nature of the contingent event will provide useful information because this would indicate to users the possibility of changes to the contractual cash flows of the financial instruments.

**99102** Conceptually, EFRAG also considers that the quantitative disclosure about the range of changes would help users of financial statements to assess the potential changes to the amounts and uncertainty of future cash flows. ~~The ED does not specify what type of a range to use, except that a sensitivity analysis is not required nor a quantification of the likely effect these contingent events could have on an entity’s financial statements. EFRAG considers that not specifying the range type would enable entities to provide a range that it considers relevant taking into consideration the contractual terms and also balancing the costs to provide that information.~~

**400103** The quantitative disclosure on the gross carrying amount of financial assets and the amortised cost of financial liabilities would be useful for users to understand the prevalence of these financial instruments and the entity’s exposure to the contingent events.

**404104** EFRAG notes that IFRS 9 requires an entity to classify a financial asset or a financial liability only<sup>5</sup> at inception of the contract based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. This

<sup>5</sup> There is a reclassification of a financial asset only when an entity changes its business model for managing financial assets (and an entity shall not reclassify a financial liability).

includes an entity making an assessment of the contractual terms that change the timing or amount of contractual cash flows (paragraph B4.1.10 of IFRS 9).

~~402105~~ Since the above assessment is only required to be performed at inception of the contract, the proposed disclosure requirements may result in entities having to update their IT systems to collect the necessary information for the disclosures and also to track the information for classes of financial assets or financial liabilities. As a result, given the large volumes and diversity of financial instruments, EFRAG considers that the proposed disclosure requirements could have significant operational challenges, and therefore, implementation costs both for holders and issuers.

~~403106~~ In addition, EFRAG notes that the IASB added to its pipeline a project that will review matters relating to the requirements in IFRS 9 for amortised cost measurement. Therefore, EFRAG suggests that the IASB considers the requirements on quantitative disclosures in the context of this project and with a more holistic approach.

~~404107~~ Furthermore, EFRAG considers that clarity or guidance is needed on what a contingent event specific to the debtor is. Otherwise, entities may have practical challenges regarding which classes of financial assets or financial liabilities to include in the disclosures. ~~EFRAG also considers that more clarity or guidance is needed on how to determine the quantitative disclosures requirement (e.g., whether or not de minimis clauses should be considered, which calculation method could be used, and when different probability scenarios are needed).~~

~~405108~~ Taking the above concerns into consideration, and in order to alleviate these significant operational challenges and costs, on balance, EFRAG suggests deleting paragraph 20B-(b) of the proposed IFRS 7 amendments. If the IASB goes ahead in proposing paragraph 20B(b) of the proposed IFRS 7 amendments, EFRAG also considers that more clarity or guidance is needed on how to determine the quantitative disclosures requirement (for example, e.g., whether or not de minimis clauses should be considered, which calculation method could be used, and when different probability scenarios are needed). ~~agrees with the proposed disclosures as they will help users of financial statements understand the effect of changes in contractual terms to the timing and amount of contractual cash flows resulting from a contingent event and they would also enable entities to manage these risks relating to changes in timing and amount of the contractual cash flows.~~

~~406109~~ Notwithstanding our response above, EFRAG points out a potential overlap of the proposed disclosures with the October 2022 Amendments to IAS 1 *Non-current Liabilities with Covenants*, whereby an entity classifying liabilities arising from loan arrangements as non-current would need to disclose information about the covenants (including the nature of the covenants) and the carrying amount of related liabilities.

~~407110~~ In addition, EFRAG points to other potential overlaps with the IASB's *Financial Instruments with Characteristics of Equity* project and with the disclosure requirements for liquidity risk in IFRS 7.

## Question 7 – Transition

### 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?

### EFRAG’s response

**408111** 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.

**409112** EFRAG considers that the retrospective approach proposed by the IASB in paragraphs 7.2.47 and 7.2.48 of the ED is consistent with the transition requirements for the initial application of IFRS 9. Furthermore, EFRAG considers that this approach will not result in significant costs as entities would have access to transition information and would not be required to restate prior periods.

**440113** EFRAG also agrees with the transition disclosure requirements in paragraph 7.2.49 of the ED.

**441114** EFRAG considers that information regarding the measurement of reclassified financial assets, immediately before and after the application of the amendments, will provide useful information because it would highlight the effects of applying the amendments on an entity’s financial statement.

**442115** As mentioned above, 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.

**443116** Finally, EFRAG agrees with the requirements proposed in paragraph 44JJ of the ED regarding the effective date and transition into IFRS 7.