EFRAG Secretariat: Galina Borisova, Sergey Vinogradov, Didrik Thrane-Nielsen

IFRS 9 *Amendments to the Classification and Measurement of Financial Instruments*

Objective

1 The objective of this session is:

(a) to provide EFRAG FRB with:

(i) a summary of the IASB proposals and tentative decisions taken; and

(ii) a summary of discussions in EFRAG FR TEG and EFRAG working groups (EFRAG IAWG and EFRAG FIWG) concerning the tentative decisions taken by the IASB.

(b) To obtain EFRAG FRB views on the IASB tentative decisions on finalising the amendments.

(c) To obtain EFRAG FRB views on the proposed planning of the endorsement process.

Background

2 The IASB has carried out a post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments* and related requirements in IFRS 7 *Financial Instruments: Disclosures* ('PIR'). The work performed by the IASB and the conclusions reached are summarised in the Project Report and Feedback Statement—Post-implementation Review of IFRS 9 Financial Instruments—Classification and Measurement, published by the IASB in December 2022.

3 To address the issues identified during PIR, in March 2023 the IASB published the ED Amendments to the Classification and Measurement of Financial Instruments – Proposed amendments to IFRS 9 and IFRS 7 (the ED), proposing the following amendments to IFRS 9:

(a) derecognition of a financial liability settled through electronic transfer (Question 1 of the ED);

(b) classification of financial assets — to clarify the application guidance for assessing the contractual cash flow characteristics of financial assets, including:

(i) financial assets with contractual terms that could change the timing or amount of contractual cash flows, for example, those with ESG-linked features (Question 2 of the ED);

(ii) financial assets with non-recourse features (Question 3 of the ED); and

(iii) financial assets that are contractually linked instruments (Question 4 of the ED);

(c) transition (Question 7 of the ED).

4 The ED also proposed to make amendments to the disclosure requirements in IFRS 7 for:

(a) investments in equity instruments designated at fair value through other comprehensive income (OCI) (Question 5 of the ED); and

(b) financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that is specific to the debtor (Question 6 of the ED).

5 EFRAG issued its Final comment letter (FCL) on 19 July 2023.

6 The IASB finalised its planned deliberations in February 2024.

Summary of the proposals, tentative decisions and EFRAG discussions

7 The table below is a summary of the initial ED proposals, IASB's (tentative) decisions on responding to feedback and EFRAG discussions.

EFRAG FRB meeting
22 March 2024
Paper 07-01
EFRAG Secretariat: Galina Borisova, Sergey Vinogradov, Didrik Thrane-Nielsen

Derecognition of a financial liability settled through electronic transfer (Question 1 of the ED)

<table>
<tr><th>Proposals in the ED</th><th>IASB’s tentative decisions on responding to feedback</th><th>EFRAG FR TEG / EFRAG working groups discussions</th></tr>
<tr><td>Clarifying that an entity usually applies settlement date accounting for financial assets and financial liabilities (B3.1.2A of the ED)</td><td>Replacing the reference to settlement date accounting with a reference to the settlement date, that is the date on which the right to receive or obligation to pay cash (or another financial asset) is established or extinguished</td><td rowspan="2">Members expressed support for the IASB proposals, in their view a more conceptual discussion would result in a much bigger project.

Members acknowledged the narrow scope of the solution, with some noting that including some other instruments (cheques, overdrafts) in it could be useful.

Some members suggested that IASB considers extending this exception to the assets side and other payment methods in a future project that should be added to the IASB workplan.</td></tr>
<tr><td>Permitting an entity to deem a financial liability that is settled using an electronic payment system to be discharged before the settlement date if, and only, if the entity has initiated the payment instruction and there is:

• no ability to withdraw, stop or cancel the payment instruction
• no practical ability to access the cash
• insignificant settlement risk

(B3.3.8-B3.3.10 of the ED)</td><td>Refining the requirement in B3.3.8(a) to refer to no practical ability to withdraw, stop or cancel the payment instruction, to be aligned with the requirement in B3.3.8(b) that the entity has no practical ability to access the cash</td></tr>
</table>

Classification of financial assets – General (Question 2 of the ED)

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
Clarifications to the concept of a **'basic lending arrangement'** (B4.1.8A of the ED)	• **Not requiring** changes in cash flows to **be aligned with the magnitude** of changes in basic lending risks and costs • Clarifying that the amount of compensation an entity receives may indicate that it is being compensated for something other than basic lending risks or costs	General agreement with the IASB proposals.
Clarified guidance on when a contractual term that changes the timing or amount of contractual cash flows are consistent with a basic lending arrangement (B4.1.10A of the ED): • considering all circumstances, irrespective of the probability of the contingent event occurring • the occurrence of the contingent event is specific to the debtor	• **Not requiring** the occurrence of the **contingent event to be specific to the debtor** • Clarifying that if the nature of the contingent event is not directly linked to a change in basic lending risks and costs, the cash flows can nonetheless **be SPPI** if: • despite the nature of the event**, the cash flows before and after any contingent events are SPPI; and**	Members **welcomed the IASB proposals** to assess the SPPI requirements, noting that they go into a right direction considering that a solution is rapidly needed. In particular, members **were supportive** of the IASB staff recommendation to replace the previously proposed approach based on the evaluation of the fair value of the contingent feature at inception of the instrument by an approach based on the assessment as to whether the contractual cash flows of a financial

Proposals in the ED	IASB’s tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
• the resulting contractual cash flows represent neither an investment in the debtor nor an exposure to the performance of specified assets	• in all scenarios, **the contractual cash flows are not significantly different from the cash flows on a similar financial asset without such a contingent event**	instrument with a contingent feature are significantly different from those of a similar instrument without such a contingent feature. Members, however, **questioned how the requirement to have not significantly different cash flows interacts with a de-minimis requirement** and whether it supersedes or results in the relaxation of the latter. Members also expressed concerns that the proposed solution might significantly enlarge the scope of financial instruments meeting SPPI requirements and hence result in unintended consequences and structuring opportunities. E.g., some members noted that the new approach may result in some instruments (notably with reset features linked to commodity and equity indexes) being classified as SPPI and emphasised the importance of the final wording of the amendments to avoid unintended consequences. Members further questioned how the proposed solution would interact with the existing IFRS 9 requirements and suggested that it was important to see the final wording of the Amendments. It was

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
		also suggested that the IASB includes its reasoning to the Basis for Conclusions. Members welcomed the early adoption of this part of the Amendments option proposed by the IASB.
Additional examples apply these principles to financial assets with ESG-features	Updating the examples to reflect refined clarifications	No substantive comments.

Financial assets with non-recourse features (Question 3 of the ED)

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
Scope (B4.1.16A of the ED) For a financial instrument to have such features, the right to receive cash flows is limited to the cash flows from specified assets **both over the life of the financial asset and in default**	• No substantive changes • Refining the proposed amendments by **deleting the reference to 'throughout the life of the instrument'**	No substantive comments. **Members agreed with the IASB proposals** to delete the reference to 'throughout the life of the instrument'.
Look through' assessment (B4.1.17A of the ED) When entities assess ('look through to') the underlying assets, the legal and capital structure of the debtor, including extent to which cash flows from underlying assets are expected to exceed the contractual cash flows on the financial asset may need to be considered	• No substantive changes • Refining the proposed amendments to better explain that **the purpose** of the look through assessment is to understand the **link between the underlying assets and the contractual cash flows of the financial asset being classified**	**Concerns expressed** that some of the current practices may be disrupted, e.g., by the statement that the **non-recourse features are contractual rather than structural**. Members emphasised importance of clarifying this aspect in the final wording of the Amendments to avoid unintended consequences. Other members **supported the IASB proposals for practical reasons** referring to a difficulty of finding an alternative solution to this issue.

Contractually linked instruments (CLIs) (Question 4 of the ED)

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
Characteristics (B4.1.20 of the ED) • concentrations of credit risk that result in the disproportionate allocation of losses between different tranches • non-recourse features	No substantive changes	**General agreement**, no substantive comments.
Secured lending arrangements (B4.1.20A of the ED) • Some secured lending arrangements in which the sponsor/debtor holds the junior instrument in a structured entity do not contain CLIs	• Requiring that the junior debt instrument is held by the sponsoring entity throughout the life of the instrument • Clarifying that there may be more than one creditor with the same priority of payments	**Members welcomed the IASB tentative decision** to amend paragraph B4.1.20A of the ED. Members noted, however, that some entities might need to change their accounting policies as a result and questioned how to treat the **situations where the assumptions at inception do not realise** (e.g., in case the junior debt instrument is sold).
Underlying pool of financial instruments (B4.1.23 of the ED) • The underlying pool may include financial instruments that are not in scope of IFRS 9, if their cash flows are SPPI	No substantive changes	**General agreement**, no substantive comments.

Disclosure – equity instruments and OCI (Question 5 of the ED)

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
Amendment of paragraph 11A of IFRS 7 to require the disclosure of: • the fair value of investments in equity instruments (rather than the fair value of each investment) at the end of the reporting period; and • 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.	• No substantive changes to the proposed disclosure requirements in paragraph 11A of IFRS 7 but **including a clarification** that the disclosure requirements in this paragraph shall be provided **by class of equity investments** • **Amending of paragraph 11B of IFRS 7** to include a disclosure requirement for any transfers of the cumulative gain or loss within equity during the reporting period, relating to equity investments disposed of during that reporting period	**Members supported the IASB proposals**. They noted that the information about fair value changes, including on disposal is very useful for the analysts. Members from insurance sector reminded the importance to reconsider the recycling and impairment of equity instruments measured at FVOCI during the PIR of IFRS 17.

Disclosure – changes in contractual cash flows (Question 6 of the ED)

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
For contractual terms that could change the timing or amount of contractual cash flows based on a contingent event specific to the borrower, a requirement to disclose: • a qualitative description of the nature of the contingent event • quantitative information about the range of changes to contractual cash flows that could result • the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those terms	• **Refining the scope of the requirements to contractual terms** that could change the amount of contractual cash flows **based on a contingent event that is not directly related to a change in basic lending risks or costs** (for example, the time value of money or credit risk) and including an example of a contractual term to which this disclosure requirement would apply • **Refining the requirement** to disclose quantitative information so that **the range of changes is an example** of the information an entity should disclose	**Members welcomed the scope limitation as proposed by the IASB**. However, some members noted that the **disclosure requirements still remain burdensome** to apply and advocated that the **retrospective application is not required**. Some other members advocated further scope limitations, notably by excluding from the scope financial instruments at FVOCI and financial liabilities. Members noted that, in the context of the new approach to the assessment of the contractual cash flows of financial instruments with contingent features, **the proposed disclosure requirements may be excessive, as they would imply disclosing information which was assessed as not significant** by applying the comparison mentioned above.

Effective date and transition requirements (Question 7 of the ED)

Proposals in the ED	IASB's tentative decisions on responding to feedback	EFRAG FR TEG / EFRAG working groups discussions
Effective date to be determined	Effective for annual periods beginning on or after 1 January 2026	**In general, members agreed with the IASB proposals**. However, some members expressed concerns about the feasibility of this effective date for the Derecognition of financial liabilities settled through electronic transfer (Question 1 of the ED).
If an entity applies the amendments for an earlier period, it shall disclose that fact and apply all the amendments at the same time.	**Entities may elect to early apply the amendments to the SPPI requirements together with the disclosure requirements in IFRS 7 relating to changes in contractual cash flows**, without having to early apply the other amendments from the same date	**General agreement**, no substantive comments
The amendments should be applied retrospectively in accordance with IAS 8, except that an entity is not required to restate comparatives.	No substantive changes	No substantive comments, with some members noting that the **retrospective application of the disclosure requirements of the contractual terms that could change the amount of contractual cash flows will be burdensome**.

An entity shall disclose changes in the measurement categories of financial assets as a result of applying the amendments		Members had mixed views on the difficulties for preparers are such that merit one year delay of the effective date as suggested by some IASB members.

Next steps

8 The IASB is bringing its tentative decisions to ASAF on 25 March 2024.

9 The IASB is planning **to issue the final amendments in May 2024**.

10 The preliminary EFRAG planning of the endorsement process is as follows and dependent on when in May the Amendments will be published:

(a) To discuss the preliminary version of the DEA with EFRAG FIWG and IAWG at ad-hoc meetings in May;

(b) To discuss the DEA with EFRAG FR TEG and approve by the EFRAG FRB in the beginning of June. Possibly in an ad-hoc joint meeting.

(c) To set the comment period for DEA of 90 days, ending around middle of September.

(d) To prepare FEA and discuss it with EFRAG FIWG and IAWG second half of September.

(e) To discuss the FEA with EFRAG FR TEG and approve by the EFRAG FRB in the beginning of October.

Questions for EFRAG FRB

11 Does EFRAG FRB have any comments on the IASB tentative decisions and status of the project?

12 Does EFRAG FRB have any comments on the planning of the endorsement process?