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Amendments to the Classification and Measurement of Financial Instruments - Feedback analysis

Cover Note

Objective

- 1 The objective of this session is to provide the EFRAG FR TEG with a summary of the IASB discussions and decisions on the feedback received and the IASB staff recommendations on the following three topics of the IASB ED *Amendments to the Classification and Measurement of Financial Instruments* ('the ED'):
 - (a) Assessment of contractual cash flows;
 - (b) Financial assets with non-recourse features; and
 - (c) Contractually linked instruments (CLIs).

Background

- 2 The IASB has carried out a post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments* and related requirements in IFRS 7 *Financial Instruments: Disclosures* ('PIR'). The work performed by the IASB and the conclusions reached are summarised in the [Project Report and Feedback Statement–Post-implementation Review of IFRS 9 Financial Instruments–Classification and Measurement](#), published in December 2022.
- 3 To address the issues identified during PIR, in March 2023 the IASB published [the ED](#), proposing the following amendments to IFRS 9:
 - (a) derecognition of a financial liability settled through electronic transfer (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.

IASB discussions

- 6 In its September 2023 meeting the IASB discussed the overall feedback analysis on the ED and was not required to make any decisions.
- 7 In its October 2023 meeting, the IASB discussed the detailed analysis of the feedback received and the IASB staff suggestions on Question 2 of the ED on contractual terms that are consistent with a basic lending arrangement. The IASB members were not asked to make any decisions at this stage.
- 8 In its November 2023 meeting, the IASB discussed the IASB staff analysis and recommendations on:
 - (a) Question 1 of the ED on the derecognition of a financial liability through electronic transfer; and
 - (b) Question 5 of the ED on disclosures relating to equity instruments and other comprehensive income.
- 9 All 13 IASB members present agreed with the IASB staff recommendations on Questions 1 and 5.
- 10 In its January 2024 meeting, the IASB discussed the IASB staff analysis and recommendations on:
 - (a) Question 2 of the ED on financial assets with contractual terms that could change the timing or amount of contractual cash flows, for example, those with ESG-linked features;
 - (b) Question 3 of the ED on financial assets with non-recourse features;
 - (c) Question 4 of the ED on financial assets that are contractually linked instruments.
- 11 With regards to Question 2 of the ED, 13 of 14 IASB members present tentatively agreed to finalise the proposed amendments in the ED, subject to revisions discussed during the meeting.
- 12 With regards to Questions 3 and 4 of the ED, all 14 IASB members present tentatively agreed to finalise the proposed amendments in the ED, subject to limited revisions discussed during the meeting.

EFRAG discussions

- 13 EFRAG FIWG discussed the overall feedback analysis at its meeting on 9 October 2023 and reiterated that the timely solution from the IASB is needed for the instruments with ESG-linked features. Members also noted that given the diverging views of stakeholders on the proposed disclosures of contractual terms

that could change the timing or amount of contractual cash flows, it will be a challenge for the IASB to find a solution.

- 14 EFRAG FR TEG discussed the same topic on 19 October 2023 and supported the EFRAG FIWG view about the need of urgent solution for the instruments with ESG-linked features.
- 15 EFRAG FIWG and IAWG discussed Questions 2 at its meetings on 20 and 21 November 2023. The feedback is noted in respective papers.
- 16 EFRAG FR TEG discussed the same topic on 5 December 2023. Members highlighted the challenge for the IASB to move fast and at the same time to have a broad support for a suggested solution. Further feedback is noted in Agenda Paper 05-02.

Next steps

- 17 The IASB is planning to discuss the IASB staff's analysis of feedback on the remaining questions (Questions 6 and 7 of the ED) at future meetings.
- 18 The IASB is planning to issue the **final amendments in Q2 2024**.
- 19 The EFRAG Secretariat will monitor the IASB discussions and provide regular update to EFRAG working groups and EFRAG FR TEG.

Agenda Papers

- 20 In addition to this Cover Note the following agenda papers are presented for this session:
 - (a) Agenda Paper 05-02 - Amendments to the Classification and Measurement of Financial Instruments – Feedback on contractual cash flows; and
 - (b) Agenda Paper 05-03 - Amendments to the Classification and Measurement of Financial Instruments – Feedback on financial assets with non-recourse features and contractually linked instruments.