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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 during its February 2024 meeting on the following topics:

(a) Disclosures – contractual cash flows;

(b) Effective date and transition requirements;

(c) Reduced disclosure requirements for subsidiaries without public accountability (‘SwPA’).

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 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.

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 (‘CLI’).

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.

13 In its February 2024 meeting, the IASB discussed the IASB staff analysis and recommendations on:

(a) Question 6 of the ED on disclosure requirements for financial instruments with contractual terms that could change the timing or amount of contractual cash flows;

(b) Question 7 of the ED on transition;

(c) Due process steps; and

(d) Reduced disclosure requirements for subsidiaries without public accountability.

14 With regards to Question 6 of the ED, all 14 IASB members present tentatively agreed to finalise the proposed amendments in the ED, subject to revisions discussed during the meeting.

15 With regards to Question 7 of the ED, 8 of 14 IASB members present tentatively agreed to set an effective date of annual reporting periods beginning on or after 1 January 2026. Also, all 14 IASB members present tentatively agreed to finalise the proposed transition requirements in the ED.

16 The IASB tentatively decided to begin the balloting process for the prospective amendments to IFRS 9 and IFRS 7 without re-exposing the IASB's tentative revisions to these prospective amendments. All 14 IASB members agreed with this decision.

17 Two IASB members indicated that they are considering dissenting from issuing the amendments because of their disagreement with the tentatively agreed effective date of 1 January 2026 (please refer to section *Effective date and transition* below for more details).

18 With regards to the reduced disclosure requirements for subsidiaries without public accountability, all 14 IASB members agreed with the IASB staff recommendations concerning the respective IFRS 7 disclosure requirements to be included (or not) in the 'catch-up' exposure draft.

EFRAG discussions

19 EFRAG FIWG and FR TEG discussed the overall feedback analysis in 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.

20 The topics of contractual cash flows, derecognition of financial liabilities through electronic transfer and equity instruments and other comprehensive income were discussed by EFRAG FIWG and IAWG in November and by EFRAG FR TEG in 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.

21 In February EFRAG FR TEG discussed the amended recommendations of the IASB on the contractual cash flows, financial assets with non-recourse features and CLIs. Members generally supported the IASB proposals.

22 In February EFRAG IAWG and FIWG discussed the amended recommendations of the IASB on the contractual cash flows, financial assets with non-recourse features, CLIs, disclosure requirements for financial instruments with contractual terms that could change the timing or amount of contractual cash flows, transition and reduced disclosure requirements for subsidiaries without public accountability. Members generally supported the IASB proposals. The detailed feedback is provided in Agenda Paper 03-02 for this session.

Effective date and transition

23 The IASB staff recommended finalising the transition requirements proposed in the ED as follows:

(a) setting an effective date of annual reporting periods beginning on or after 1 January 2026; and

(b) permitting entities to elect to early apply the amendments to the SPPI requirements together with the disclosure requirement in IFRS 7 relating to changes in contractual cash flows, without having to early apply the other amendments from the same date.

24 The Amendments should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, without restating comparatives (no changes to the proposals in ED).

25 An IASB member raised a concern that 1 January 2026 is too early as an effective date for the companies of non-financial sector. The issue is that the derecognition requirements for financial liabilities settled via electronic transfers will require a significant implementation work, especially concerning various cash-related reports. There may be a need for time-consuming IT projects.

26 This concern raised quite some sympathy among some IASB members. The alternative effective date of 1 January 2027 was proposed. Several other alternatives were considered (1 January 2027 as an effective date for the derecognition requirements for financial liabilities settled via electronic transfers and 1 January 2026 for all amendments while keeping Amendments as one document; Splitting the amendments into 2 separate documents with different effective dates).

27 Eventually, the IASB tentatively decided to set an effective date of annual reporting periods beginning on or after 1 January 2026, as recommended by the IASB staff. Eight of 14 IASB members agreed with this decision. Two IASB members indicated that they are considering dissenting from issuing the amendments because of their disagreement with this tentative decision.

28 The IASB also tentatively decided:

(a) to finalise the transition requirements proposed in the ED; and

(b) to permit early application of the amendments to the requirements related to solely payments of principal and interest and the disclosure requirement in IFRS 7 relating to changes in contractual cash flows, separately from the other amendments.

29 All 14 IASB members agreed with this decision.

IASB due process steps

30 The IASB staff asked the IASB the permission to ballot. The IASB staff considered but did not recommend the re-exposure of the amendments on the grounds that none of the changes that the IASB have tentatively decided to make are fundamental and would require re-exposure and taking into account the urgency of the solution needed.

31 The IASB tentatively decided to begin the balloting process for the prospective amendments to IFRS 9 and IFRS 7 without re-exposing the IASB's tentative revisions to these prospective amendments.

32 As detailed above, two IASB members indicated that they are considering dissenting from issuing the amendments.

33 The IASB staff believes that the IASB has undertaken all of the due process activities identified as being required in the Due Process Handbook and hence are able to finalise the amendments.

Next steps

34 The IASB is planning to issue the **final amendments in Q2 2024.**

35 The EFRAG Secretariat will monitor the IASB discussions and provide regular update to EFRAG working groups and EFRAG FR TEG.

Questions to EFRAG FR TEG

36 Does EFRAG FR TEG agree with the effective date of annual reporting periods beginning on or after 1 January 2026?

37 Does EFRAG FR TEG agree with the proposed election to early apply the amendments to SPPI requirements?

38 Does EFRAG FR TEG agree that the IASB staff performed all due process steps for the project?

Agenda Papers

39 In addition to this Cover Note the following agenda paper is presented for this session:

(a) Agenda Paper 03-02 - Amendments to the Classification and Measurement of Financial Instruments – Feedback on disclosures on contractual cash flows and reduced disclosures for SwPA.