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PIR IFRS 9 Impairment

Cover Note

Objective

- 1 The objective of this session is to provide EFRAG FR TEG with a feedback analysis and to seek views of EFRAG FR TEG on the IASB tentative decisions on the general approach to recognition of the expected credit loss and determining significant increases in credit risk (SICR).

Background of the IASB project

RFI

- 2 The IASB published the [RFI on PIR of IFRS 9 Financial Instruments - Impairment](#) on 30 May 2023.
- 3 The RFI set out questions in ten sections:
 - (a) Section one sought general information on the effect the application of the impairment requirements in IFRS 9 has had on preparers of financial statements, users of financial statements, auditors, and regulators;
 - (b) Sections two to eight sought information on specific areas of the impairment requirements in IFRS 9, including information on the application of these requirements alongside other requirements in IFRS 9 or in other IFRS Accounting Standards;
 - (c) Section nine sought information on application of the disclosure requirements in IFRS 7 for credit risk; and
 - (d) Section ten sought other information relevant to the post-implementation review of the impairment requirements.

IASB redeliberations

- 4 At its November 2023 meeting, the IASB discussed a high level summary of the feedback to the RFI on PIR of IFRS 9 - *Impairment* ('the RFI') and plan for phase 2 of the post-implementation review.

- 5 The papers for this session reflect the IASB February 2024 discussions and provide more detailed feedback analysis of the comment letters and IASB staff recommendations on the two topics.
- 6 IASB also discussed these topics with [IFRS IC](#) on 5 March 2024, will discuss them with [ASAF](#) on 25 March 2024 and discussed the feedback analysis on credit risk disclosure requirements with [CMAC](#) on 8 March 2024.
- 7 The IASB staff also provided an [academic literature review](#) relevant to this PIR.

EFRAG comment letter

- 8 After extensive consultation with constituents, EFRAG published its [final comment letter](#) on 27 September 2023.
- 9 In its comment letter EFRAG considered that the impairment requirements in IFRS 9 generally work as intended and that the use of a forward-looking expected credit loss model results in more timely recognition of credit losses than applying IAS 39 *Financial Instruments: Recognition and Measurement*.
- 10 Nevertheless, EFRAG highlighted some issues of application or diversity in practice with different levels of priority that should be further considered by the IASB in the context of this PIR:
 - (a) **Cash shortfalls used to measure expected credit losses** - whether the expression "all cash shortfalls" used in Appendix A of IFRS 9 to define credit loss should be interpreted within the scope of concessions from the lender due to financial difficulties of the borrower.
 - (b) **Interaction between modification, impairment, and derecognition** requirements in IFRS 9.
 - (c) More guidance in the form of illustrative examples and/or educational material would enhance **the quality and comparability of credit risk disclosures**.
- 11 In addition, EFRAG recommended the IASB to consider other issues with medium priority, such as intra-group loans and guarantees, collective assessment of significant increases in credit risk, loan commitments, financial guarantees and other credit enhancements and purchased or originated credit impaired assets requirements.

Terminology

- 12 In the agenda papers for this session, the following terms were used to indicate the views:
 - (a) almost all - all except a very small minority;
 - (b) most - large majority, with more than a few exceptions;
 - (c) many - small majority or large minority;
 - (d) some - small minority, but more than a few; and
 - (e) a few - a very small minority.

Overview of the feedback received by the IASB

- 13 Overall feedback was positive. In particular it was noted that IFRS 9 impairment requirements result in more timely recognition of credit losses compared to IAS 39

Financial Instruments: Recognition and Measurement, work as intended and provide useful information about the effect of credit risk on the future cash flows.

- 14 Although the PIR feedback did not identify any fatal flaws, respondents identified specific **application challenges** and diversity in practice, mostly in areas that require use of judgement. They focused on:
- (a) **application issues** arising from the **interaction between the impairment requirements and** the requirements in IFRS 9 for **modifications, derecognition and write-off** - identified in EFRAG comment letter as a **high priority issue**; and
 - (b) diversity in the quality and granularity of **credit risk disclosures** - identified in EFRAG comment letter as a **medium priority issue**.
- 15 In addition, the following **other application matters** were identified:
- (a) Expected credit losses (**ECL**) for **intragroup financial instruments** and initial ECL for **purchased financial assets** - identified in EFRAG comment letter as a **medium priority issue**; and
 - (b) **ECL for loan commitments**, reflecting the effect of some financial guarantees in the measurement of ECL and application questions on purchased or originated credit-impaired (POCI) financial assets - identified in EFRAG comment letter as a **medium priority issue**.
- 16 In addition, the issues discussed in this paper were discussed with [IFRS IC on 5 March 2024](#). The outcome of this discussion will be provided orally.

EFRAG discussions

- 17 EFRAG FR TEG discussed the overall summary of the feedback received by the IASB in December 2023.
- 18 Members noted low involvement of users in the consultation and suggested alternative ways of engaging with users, for example through consultative groups, such as CMAC.
- 19 Some members suggested that it could be useful to leverage the work performed by the Taskforce on Disclosures about Expected Credit Losses.
- 20 It was also noted that proportionality and materiality should be considered for disclosure requirements for non-financial entities.

Next steps

- 21 The IASB project plan is presented below.

Topics for discussion in PIR Phase 2	Expected timing
ECL measurement	March 2024
ECL and other requirements	April 2024
Credit risk disclosures	Q2 2024
Purchased or originated credit-impaired assets and other matters	Q2 2024

- 22 The IASB plans to finalise the IASB staff analysis and recommendations by the second quarter of 2024. The IASB will then publish a project report and feedback statement.

Agenda Papers

- 23 In addition to this cover note the following agenda papers are provided for this session:
- (a) agenda paper 04-02 – General approach to ECL recognition – feedback analysis; and
 - (b) agenda paper 04-03 – SICR – feedback analysis.