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Amendments to the Classification and Measurement of Financial Instruments

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Objective

- 1 The objective of this session is to discuss and approve for publication the Draft Endorsement Advice ('DEA') on the *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7) ('the Amendments').

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 \(the ED\)](#).
- 4 EFRAG issued its [Final comment letter](#) (FCL) on 19 July 2023.
- 5 On 30 May 2024, the IASB issued [Amendments to the Classification and Measurement of Financial Instruments \(Amendments to IFRS 9 and IFRS 7\)](#) ('the Amendments'), where it took into account the feedback received from its stakeholders.

Summary of main changes in the Amendments

- 6 Early application of the Amendments is allowed for the set of amendments to solely payments of principal and interest ('SPPI') principles, not only for financial instruments with ESG-linked features, but also to non-recourse financial assets and contractually linked instruments ('CLI') altogether.
- 7 The main idea of the changes is that if the nature of contingent event does not relate directly to changes in basic risk and costs (with an example of reduction of carbon emissions), then further assessment of whether the contractual cash flows are SPPI is necessary. To make this assessment the contractual cash flows should be SPPI before and after a contingent event and, in all contractually possible scenarios, be not significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature.

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- 8 Some changes were also made to paragraphs on non-recourse financial assets and CLIs. They clarified the interrelations between the two and explained what paragraphs of IFRS 9 should be applied in each case. Also, an example of when lease receivables can be included in the underlying pool of financial instruments was added.
- 9 Some wording changes without changing the substance were made to the disclosure requirements for financial instruments measured at FVOCI. It was clarified that the disclosure is required by class of financial asset.
- 10 No significant changes were made to the disclosure of contractual cash flows. The IASB kept financial assets measured at FVOCI and credit-impaired financial assets within the scope of disclosure requirements.
- 11 It is the first time that consequential amendments to IFRS 19 *Subsidiaries without Public Accountability* are included in amendments to IFRS accounting standards. The EC in its letter did not ask EFRAG to provide endorsement advice on amendments to IFRS 19.

EFRAG FIWG-IAWG feedback

- 12 EFRAG FIWG and EFRAG IAWG had a joint meeting on 7 June 2024 to discuss the first version of the DEA prepared by the EFRAG Secretariat.
- 13 Members welcomed the Amendments and noted that the overall package represented a significant improvement compared to the ED and considered that they fit for purpose for the EU.
- 14 Members agreed with the DEA as drafted by the EFRAG Secretariat and appreciated the quick turnaround.
- 15 EFRAG IAWG members noted that it was too early for them to comment on the implementation of IFRS 9 and that it will be done later as part of the PIR of IFRS 17 *Insurance Contracts* and suggested to mention that non-recycling of equity instruments measured at FVOCI remains an important issue for European insurers.
- 16 Members commented that although the effective date of the amendments with regard to electronic payment systems may be challenging, especially if entity uses many different payment systems, it should not be an obstacle to recommend endorsing the Amendments.

EFRAG FR TEG feedback

- 17 At its meeting on 17 June 2024, EFRAG FR TEG agreed to recommend the DEA for approval to the EFRAG FRB subject to some comments and drafting suggestions.
- 18 The main suggestions were to add the assessment of comparability for disclosures on equity instruments at FVOCI and the assessment of relevance and reliability - for financial assets with non-recourse features and contractually linked instruments. It was also suggested to add to the assessment of costs for preparers that the scope of disclosure requirements for contractual terms that could affect the amount of contractual cash flows was not reduced as suggested by EFRAG.

Next steps

- 19 Following the approval of the EFRAG FRB, the EFRAG Secretariat will publish the DEA for consultation. The proposed deadline for comments will be 13 September 2024.
- 20 The following steps are planned after the consultation is over:
 - (a) To prepare final endorsement advice ('FEA') and discuss it with EFRAG FIWG and IAWG at an ad-hoc joint meeting on 26 September 2024;

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- (b) To discuss the FEA with EFRAG FR TEG and approve the FEA by the EFRAG FRB at a joint meeting on 8 October 2024; and
 - (c) To publish FEA by 15 October 2024.
- 21 This endorsement plan has been developed to aim for the ARC approval by the end of December 2024 (considering 3 months non-objection period) and publication of the Amendments in the Official Journal by the end of April 2025 which will allow their use in EU starting from the interim reporting of 2025.

Questions to EFRAG FRB

- 22 Does EFRAG FRB have any comments on the drafting of the DEA?
- 23 Does EFRAG FRB approve the proposed deadline for comments on the DEA?
- 24 Does EFRAG FRB approve the DEA for publication?

Agenda Papers

- 25 In addition to this Cover Note the following agenda papers are presented for this session:
- (a) Agenda Paper 07-02 - Amendments to the Classification and Measurement of Financial Instruments DEA – Letter to the EC; and
 - (b) Agenda Paper 07-03 - Amendments to the Classification and Measurement of Financial Instruments DEA – Invitation to comment.