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PIR IFRS 9 Impairment

Measuring ECL – feedback analysis

Objective

1 The objective of this session is to seek EFRAG FR TEG views on the IASB staff feedback analysis and recommendations and the IASB tentative decisions on the main requirements in IFRS 9 for measuring of ECL, in particular on the use of forward-looking scenarios and post-model adjustments.

Summary of the feedback received

2 Almost all respondents provided feedback about ECL measurement and did not identify any fatal flaws with the principle-based requirements. They noted, however, diversity in practice in some areas, primarily the incorporation of forward-looking scenarios and use of post-model adjustments ('PMAs') and suggested the IASB to provide application guidance in these areas.

3 Appendix A provides the IASB staff assessment of these issues against PIR criteria.

4 Appendix B provides the IASB staff analysis of other feedback for which the IASB staff concluded no further action is required.

EFRAG comment letter

5 In its comment letter EFRAG considered that the requirements for measuring ECL generally work as intended and provide an adequate basis to enable users to evaluate the information about the amount, timing, and uncertainty of an entity's future cash flows.

6 EFRAG acknowledged that a principle-based approach implies increased flexibility in how an entity would achieve the objective of impairment requirements and noted that it may in some cases result in a lesser comparability of the ECL amounts between the entities due to the different models, assumptions, number of scenarios and the values assigned to risk parameters and forward-looking factors. However, EFRAG noted that from the other side it allows an entity to apply the approach most suitable for its particular circumstances and which should result in decreased complexity and increased relevance of the ECL amounts reported.

Forward-looking scenarios

Summary of the feedback received by the IASB

Number of forward-looking scenarios and their probability weightings

7 Many respondents observed diversity in practice regarding the number of forward-looking scenarios and the probability weighting assigned by entities to each one of those scenarios.

8 For example, one prudential regulator observed that although many banks use multiple forward-looking scenarios, there is still diversity in how banks capture the impact of economic uncertainty.

9 Many of the respondents, including prudential regulators and accountancy firms said that, often, there is a non-linear relationship between different forward-looking scenarios and their associated credit losses. Consequently, using a single forward-looking scenario in such circumstances would not typically be appropriate. In their view, acknowledging the concept of non-linearity in IFRS 9 would be helpful in ensuring meaningful scenarios - that reflect the underlying non-normal distribution of credit losses - are selected.

10 They suggested that the IASB clarifies the objective of the scenario analysis - what entities are expected to achieve and specify the need to consider significant non-linearities in the distribution of potential credit losses when defining and selecting scenarios.

11 A few of these respondents commented that paragraph 5.5.18 of IFRS 9 can be interpreted that the use of multiple scenarios is seeking to incorporate and capture the effects of significant downside scenarios in the probability weighted average calculation. However they are of a view, that the intended objective of this paragraph was to capture non-linearity between variables and scenarios, rather than significant downside scenarios only when selecting more than one scenario.

12 Some prudential regulators and accountancy firms explained that additional guidance would help achieve greater consistency and support them in challenging the instances in which multiple scenarios were warranted but not used or the scenarios used by an entity were not meaningful.

Variables considered and incorporation of exposure to climate risk in forward-looking scenarios

13 Respondents observed diversity in practice in the use of macroeconomic variables in forward-looking information and scenarios, acknowledging that significant level of judgment is required to determine which macroeconomic variables are to be used, and the extent to which these variables might impact the entity's exposure to credit risk.

14 Some respondents suggested that the IASB provides application guidance or illustrative examples about how particular risks should be reflected in the forward-looking information and scenarios when measuring ECL, in particular, how the impact of climate risk is incorporated in the forward-looking information. Respondents noted that climate risk is becoming a high focus area for some preparers.

IASB staff analysis and recommendations

Number of forward-looking scenarios and their probability weightings

15 The IASB staff notes that paragraph 5.5.18 of IFRS 9 requires an entity to consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs

and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. However, when measuring ECL, an entity need not necessarily identify every possible scenario.

16 The IASB staff further notes that paragraphs BC5.262–BC5.263 of the Basis for Conclusions on IFRS 9 explain that the estimates of cash flows required in paragraph 5.5.17 of IFRS 9 are expected values. Hence, estimates of the amounts and timing of cash flows are based on probability-weighted possible outcomes.

17 Accordingly, as explained in paragraph BC5.264(a) of the Basis for Conclusions on IFRS 9, applying paragraph 5.5.17 of IFRS 9, an entity is required to consider multiple scenarios, possible outcomes and their probability of occurrence. Entity does not need to identify every single possible scenario, but to consider at least two outcomes: the risk of a default and the risk of no default.

18 When developing the requirements in paragraph 5.5.17 of IFRS 9, the IASB anticipated that there could be non-linearities between the forward-looking scenarios however these would be captured when a complete and representative sample is selected.

19 The IASB staff notes that determining which scenarios are representative of the many possible outcomes will depend on whether, and if so where, there are significant non-linearities between the probability of default and the credit losses for a range of different forward-looking scenarios.

20 In the IASB staff's view, an entity is required to apply judgement when determining the appropriate number of scenarios and the probabilities assigned to each scenario that will provide an unbiased outcome which also captures significant non-linearities. Such judgements will depend on facts that are available and circumstances that are specific to that entity and its credit exposures, and will need to be periodically reassessed as facts and circumstances change.

21 Consequently, the **diversity could be considered as the natural outcome of a principle based ECL measurement approach that requires a degree of judgement**. Any amendment to IFRS 9 to elaborate on the objective of the requirements in paragraph 5.5.17(a) and to capture the impact of non-linearity would not eliminate this diversity because judgement will still be required.

22 **In the IASB staff's view, the costs of amending IFRS 9 to elaborate on the objective of the requirements in paragraph 5.5.17(a) and to capture the impact of non-linearity would not outweigh the benefits.** This is because making this clarification **would not automatically result in consistent outcomes** and thus, it might not significantly improve the usefulness of information provided to users of financial statements. The operational costs of implementing the amendment are also expected to be high. Most entities have already developed accounting policies and established practices for scenario analysis, therefore any amendments to the requirements could lead to disruption in practice.

23 Therefore, the IASB staff **recommend no amendments to the measurement requirements for ECL in IFRS 9, including no additional application guidance for incorporation of forward-looking scenarios. This is because the requirements in paragraphs 5.5.17−5.5.18 of IFRS 9, and the related application guidance provide an adequate basis for an entity to determine how to measure ECL for its credit exposures.**

Variables considered and incorporation of exposure to climate risk in forward-looking scenarios

24 The IASB staff notes that selection of macroeconomic variables depends on each entity's expectations of future economic conditions; and on how and to what extent they will impact its different credit exposures as at the reporting date, reflecting a point in time assessment. For example, an expected increase in the national unemployment rate could have a different impact on the ECL of a credit card portfolio than on the ECL of a residential mortgage portfolio.

25 The IASB staff further notes that measuring ECL would depend on how an entity manages its exposure to credit risk, including its risk appetite or tolerance (for example, the extent of the use of mitigating measures). Even when entities have similar portfolios of credit risk exposures and are based in the same jurisdiction, it would be unlikely that they would have the same ECL measurements if they are managing their credit risk in different ways. Accordingly, it is possible that entities with similar portfolios of credit risk exposures may each have estimates of ECL that are unbiased, reasonable, and supportable, and yet might differ from each other.

26 Entities are expected to consider the impact of climate risk in their expectations of future economic conditions and macroeconomic variables and incorporate it in their forward-looking scenarios to the extent that information about the impact of climate risk is reasonable, supportable and available without undue cost or effort at the reporting date. In the IASB staff's view, this is already captured by the requirements in paragraph 5.5.17(c) of IFRS 9.

27 However, as noted in paragraph B5.5.50 of IFRS 9, in estimating the impact of climate risk for the purposes of measuring ECL, an entity is not required to incorporate forecasts of future conditions over the entire expected life of a financial instrument for long term exposures. The estimate of ECL does not require a detailed estimate for periods that are far in the future - for such periods, an entity may extrapolate projections from available, detailed information. In addition, as IFRS 9 requires the ECL to be measured for an entity's credit risk exposures as at reporting date, the entity is not required to consider the impact of climate risk on future exposures that do not yet exist.

28 Therefore, the IASB staff **recommend not to include any specific requirements about macroeconomic variables, and the impact of climate risk, in measuring ECL.**

29 The IASB staff are aware that, as part of the *Climate-related and other uncertainties in the financial statements* project, the IASB is considering providing some illustrative examples, including a potential example illustrating disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* about the effects of climate-related risks on an entity's credit risk management practices and how these practices relate to measuring ECL. In the IASB staff view this could also address some of the PIR feedback in this area.

EFRAG comment letter

Number of forward-looking scenarios and their probability weightings

30 In its comment letter EFRAG noted that the diversity of methods of estimating ECL is inherent in the principle-based approach to impairment, including the macro-economic scenarios used and incorporation of forward-looking information. Nevertheless, EFRAG

considers that lack of comparability in this case is offset by increased relevance of the resulting information.

31 EFRAG did not ask for further guidance in this area.

Variables considered and incorporation of exposure to climate risk in forward-looking scenarios

32 In its comment letter EFRAG noted that incorporating climate-related risks into the assessment of ECL should follow the general principles of including forward-looking factors into ECL model.

33 EFRAG also suggested that the IASB's research project on *Climate-related and other uncertainties in the financial statements* could help identify any gaps in the guidance in a holistic manner.

EFRAG Secretariat assessment

34 The EFRAG Secretariat agrees with the IASB staff recommendations not to provide additional guidance and maintain the principle-based approach for forward-looking scenarios, probability weightings and variables. They are in line with EFRAG's position in the comment letter.

35 The EFRAG Secretariat maintains its position that climate-related risks would be better addressed within the dedicated project on *Climate-related and other uncertainties in the financial statements.*

Post-model adjustments or management overlays

Summary of the feedback received by the IASB

36 Respondents across all stakeholder groups noted that, in recent years, **the use of PMAs has significantly increased as a way to capture the impact of emerging risks**. Most respondents who commented on this matter, including preparers, said these adjustments have been a helpful tool to support timely recognition of ECL because they compensate for the limitations of statistical models and the lack of historical information that would be representative of their future expectations.

37 One prudential regulator observed that there is **limited guidance on the use of PMAs** which may result in a potential underestimation of ECL and a delay in recognition of a SICR. This regulator noted the following practices as an example:

(a) the use of PMAs that are aimed at covering a broad spectrum of unrelated risks and/or multiple portfolios or borrower groups without a clear distinction of the amount related to each risk (i.e. so-called 'umbrella overlays').

(b) the use of PMAs that increase ECL without a corresponding transfer of exposure to lifetime ECL stage.

38 In that prudential regulator's view, when risk factors driving the use of PMAs at the ECL level are linked to the risk of default (e.g. uncertainty about the impact of high inflation on borrowers' payment capacity), their effects should also be taken into account in the assessment of SICR. For these purposes, it suggested that the IASB explicitly requires that in such cases complementary measures, such as collective SICR assessments, are expected to be applied to ensure that the requirements of IFRS 9 are met.

39 Many respondents (including some accountancy firms, prudential regulators, standard-setters and analysts) noted that, by nature, PMAs often involve a high degree of subjective management assessment and could have a significant effect on measuring ECL. They reported **diversity in the way PMAs are recognised and a general lack of transparency about how a PMA is determined**, reducing the usefulness of information about ECL to users of financial statements.

40 A few respondents commented that, by nature, the use of PMAs should only be transitory and limited to a short period of time. However, **in practice entities tend to 'repurpose' PMAs and not release them**.

41 Respondents suggested, in the light of diversity in practice, that the IASB **adds some application guidance around the use and release of PMAs** (without including any specific suggestions) and additional disclosure requirements to IFRS 7 to help achieve greater consistency.

EFRAG comment letter

42 In its comment letter, EFRAG acknowledged the increasing use of PMAs at the times of uncertainty and suggested the IASB to provide guidance in which situations and for how long the post-model adjustments could be used and that their use should be consistent with objective and verifiable evidence.

IASB staff analysis and recommendations

43 The IASB staff reminded that **principle-based approach of IFRS 9 does not prohibit the use of PMAs,** as long as their use is consistent with the impairment requirements of the Accounting Standard and achieve their objective (i.e. to recognise a lifetime ECL for all financial instruments for which there has been a SICR since initial recognition - whether assessed on an instrument-by-instrument or collective basis, considering all reasonable and supportable information, including that which is forward-looking, see paragraph 5.5.4 of IFRS 9).

44 IFRS 9 however **does not prescribe specific techniques and allows the entities the flexibility to apply judgement** and select methods that are most appropriate for their circumstances. This principle-based approach is designed to accommodate a wide range of circumstances, including the use of PMAs.

45 The IASB staff also noted that IFRS 9 is clear that the **assessment of SICR is different, and separate, to measurement of ECL**. As a result, the use **of PMAs cannot be a 'substitute' for an assessment of SICR**, because:

(a) an entity is required to assess whether the credit risk on a financial instrument has increased significantly since initial recognition and, when making this assessment, use the change in the risk of a default occurring over the expected life of the financial instrument, and *not the change in the measurement amount of ECL* (paragraph 5.5.9 of IFRS 9).

(b) the trigger for recognising lifetime ECL is a significant increase in credit risk. Therefore, a PMA that adjusts ECL measurement cannot be a substitute for an assessment of SICR, regardless of whether this assessment is done on an instrument-by-instrument, or on a collective, basis.

(c) measuring a lifetime ECL represents expected credit losses that result from all possible default events over the expected life of a financial instrument or a group of financial instruments, whilst a SICR indicates that the credit quality of a financial instrument or a group of financial instruments has deteriorated since initial recognition.

46 The IASB staff further noted in respect of 'umbrella overlays', that recognising general provisions is inconsistent with the objective of impairment requirements. **PMAs cannot represent general provisions, regardless of whether the ECL is measured on an instrument-by-instrument, or on a collective, basis.**

47 As noted in paragraph B5.5.4 of IFRS 9, when an entity does not have reasonable and supportable information available to measure lifetime ECL on an individual instrument basis, it can do so on a collective basis. However, when measuring ECL collectively, an entity is required to use comprehensive credit risk information to ensure the collective lifetime ECL recognised approximates the result of recognising lifetime ECL when there has been a SICR since initial recognition on an individual basis.

48 The IASB staff concluded that **it is clear that IFRS 9 does not prohibit the use of PMAs**, **if doing so is consistent with the impairment requirements of the Accounting Standard** and will help entities achieve the objective of these requirements.

49 **The primary concern identified by respondents is the diversity in practice and the lack of transparency surrounding PMAs.** To address this issue, the IASB staff **will consider whether enhancing disclosures could provide a more effective solution.** The IASB will discuss the feedback analysis on credit risk disclosures at a future meeting.

50 Therefore, the IASB staff **recommend no changes to the requirements or the application guidance in IFRS 9 regarding this matter.**

EFRAG Secretariat assessment

51 The EFRAG Secretariat acknowledges the IASB's arguments not to provide additional guidance on the use and release of PMAs. However, in line with its position in the comment letter, the EFRAG Secretariat is of view that additional guidance, in particular about the release of PMAs, could be useful.

52 The EFRAG Secretariat is not convinced that adding disclosure requirements to IFRS 7 in respect of the use of PMAs will provide an effective solution. The EFRAG Secretariat reminds that paragraph 35G of IFRS 7 already requires explanation of the inputs, assumptions and estimation techniques used to apply the impairment requirements, including how forward-looking information has been incorporated into the determination of ECL and changes in estimation techniques or significant assumptions made during the reporting period and the reasons for those changes (paragraphs 35G(b) and (c)).

The IASB discussions and tentative decision

53 The IASB members agreed with the IASB staff proposals not to add application guidance for incorporation of forward-looking scenarios and use of PMAs.

54 IASB members noted that it would result in setting bright lines in the principle-based approach of IFRS 9 which might create new questions and be disruptive.

55 On the PMAs, members agreed with the IASB staff conclusions that IFRS 9 allows their use and that PMAs should not be used as general provisions. In order to prevent the latter members considered that more transparency is needed regarding their use, reversal and reconciliation which could be achieved through disclosure requirements.

56 14 out of 14 IASB members agreed with the IASB staff proposals.

EFRAG FIWG feedback

57 EFRAG FIWG discussed general approach to ECL recognition, SICR and measuring ECL at its meeting on 27 March 2024. The feedback is provided below.

General approach to ECL recognition

58 EFRAG FIWG agreed with the IASB tentative decision not to perform any standard setting in respect of the general approach to ECL recognition. They noted that the principle-based approach works well even at the time of uncertainties, such as COVID-19 or war in Ukraine, that entities developed methodologies suitable for their risk management practices and apply them consistently. Members also agreed that making insignificant changes to the approach can create more problems than solutions.

59 One member noted differing views of prudential regulators and rating agencies on the calculation of ECL for the intercompany financial instruments. The latter takes into account the financial strength of the parent entity and not of a subsidiary when assessing funding costs and credit spread.

60 Another member noted that the IASB line of arguments to not provide additional illustrative examples on the basis that they are non-authoritative and disruptive is not consistent with the IASB approach taken on other projects, where such examples are considered to be a solution.

SICR

61 EFRAG FIWG agreed with the IASB tentative decision not to take any standard-setting action on this topic.

62 On collective vs individual assessment of SICR, members noted the tension between accounting and regulatory objectives and considered that there is no need to aggregate the portfolios when the information is available at the individual instrument level. It was suggested that existing guidance in paragraphs BC5.138 – BC5.142 can be used.

Measuring ECL: forward-looking scenarios and post-model adjustments (PMAs)

63 Members supported the IASB proposals not to do any standard setting on forward-looking scenarios and PMAs. Members noted that IFRS 9 impairment model was written for a stable world, that PMAs are necessary to factor in uncertainties but the governance around them is needed. One way to do it is through presentation and disclosure.

64 Members listed two types of PMAs: one - which results in the later adjustments to the parameters of the model and another – which is released after the circumstances, causing it, disappear. Members also noted increased attention to this topic by the regulators and suggested that more guidance, especially on how to properly factor in PMAs into the existing model or when PMA should be released would be helpful.

65 One member reported difficulties with including non-financial information, such as climate-related risks, in the model.

Questions to EFRAG FR TEG

66 Does EFRAG FR TEG agree with the IASB staff analysis and the IASB tentative decision not to take standard-setting action on matters raised by respondents regarding the use of forward-looking scenarios and PMAs in measuring ECL?

67 Does EFRAG FR TEG agree with the EFRAG Secretariat analysis?

Appendix A - IASB staff assessment - Is further action needed?

PIR evaluation requirements	IASB staff assessment	
	Incorporation of forward-looking scenarios	**Use of PMAs**
Are there fundamental questions (i.e. 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements?	**No**. Feedback to the RFI and the staff analysis in this paper on the matters identified indicated that the ECL measurement requirements regarding the use of forward-looking scenarios and PMAs are working as intended and that there are no fundamental questions about the clarity or suitability of the requirements in IFRS 9.	
Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?	**No.** Although, some respondents raised concerns that the diversity in practice relating to the incorporation of forward-looking scenarios and the use of PMAs in measuring ECL results in different ECL measurement outcomes and consequently reduce the usefulness of information provided to users of financial statements, the IASB staff note that differences in measurement outcomes are inherent in principle-based requirements for measurement of ECL. Measuring ECL would depend on how an entity manages its exposure to credit risk, including its risk appetite or tolerance. This means, the principle-based requirements allow an entity to reflect the effect of entity's own credit risk management practices in the measurement of ECL. Ultimately, this results in a faithful representation of ECL and, thus, useful information being provided to users of financial statements.	
Are the costs of applying some or all of the new requirements and auditing and enforcing their	**No** Although some respondents have indicated that the objective of incorporating forward-looking scenarios for	**No** Feedback to the RFI did not provide any evidence that the cost of applying, auditing or enforcing the application of

PIR evaluation requirements	IASB staff assessment	
	Incorporation of forward-looking scenarios	**Use of PMAs**
application significantly greater than expected?	the purpose of applying the requirements in paragraph 5.5.17(a) of IFRS 9 could be clarified to mitigate audit and enforcement challenges in some cases, in the IASB staff view, that feedback does not suggest that the costs of applying the requirements and auditing and enforcing their application are significantly greater than expected. While the IASB staff acknowledge that such a clarification might be beneficial, the IASB staff do not think that the incremental benefits would outweigh the costs of that amendment.	the ECL measurement requirements regarding the use of PMAs are significantly greater than expected.

Appendix B - Other feedback

Forecast collection costs

Requirements

68 Paragraph B5.5.55 of IFRS 9 states that for collateralised financial instruments, the estimate of expected cash shortfalls reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable (i.e. the estimate of expected cash flows considers the probability of a foreclosure and the cash flows that would result from it).

Application question

69 A few respondents said that there is no similar guidance on the accounting for collection costs relating to uncollateralised financial assets (e.g. commission payable to a debt-collection agency), resulting in inconsistency in practice.

Staff analysis

70 In the IASB staff's view, collection costs are part of the fees incurred for servicing a financial asset. As per the requirements in paragraph B5.4.3 of IFRS 9, servicing fees are not an integral part of the effective interest rate of a financial instrument, and therefore not taken into account in estimating the future cash flows of the instrument when determining its effective interest rate. By way of an analogy, it might not be appropriate to consider these costs as integral to the recovery of future expected cash flows of a financial asset for measuring its ECL either.

71 **The IASB staff recommend that no action is taken on this question, as the matter is not widespread or expected to have a material effect.**

Impact of collateral on definition of 'credit-impaired'

Requirements

72 As per Appendix A of IFRS 9, a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

73 It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Application question

74 A few respondents noted that when financial assets are highly or fully collateralised, but are in default (e.g. payments are more than 90 days past due), it is not clear if the financial assets would qualify as credit-impaired. In their view, this is because the definition of credit–impaired in Appendix A of IFRS 9 refers to 'a detrimental impact on the estimated future cash flows' but it is not clear whether this should be read to include any recoveries from the realisation of collateral.

Staff analysis

75 Paragraph B5.5.12 of IFRS 9 clarifies that an entity separates the changes in the risk of a default occurring from changes in other drivers of ECL, such as collateral. Therefore, when assessing whether a significant increase in credit risk has occurred, an entity does not take into account the value of the collateral. Similarly, the definition of credit-impaired does not take into account recoveries from the realisation of the collateral. Recovery of outstanding cash flows via realisation of collateral suggests that a breach of the contract such as default or a past due event has occurred and the financial asset is credit-impaired as per the definition in Appendix A of IFRS 9. Because measuring ECL considers the amount and timing of payments, as per paragraph B5.5.28 of IFRS 9, a credit loss arises even if the entity expects to be paid in full (i.e. the instrument is fully collateralised) but later than when contractually due. Therefore, an entity is required to take into account the amount and timing of the realisation of the collateral that is not recognised separately when measuring ECL, as per paragraph B5.5.55 of IFRS 9.

76 **The IASB staff recommends that no action is taken on this question, as IFRS 9 provides an adequate basis to determine whether and when fully collateralised financial assets are considered credit-impaired.**

Interest revenue recognition for credit-impaired financial assets

Requirements

77 Paragraph 5.4.1(b) of IFRS 9 requires that for financial assets that are not purchased or originated credit-impaired, but subsequently have become credit-impaired, an entity applies the effective interest rate to the amortised cost of the financial assets in subsequent reporting periods.

Application question

78 A few respondents noted that based on the wording in paragraph BC5.78 of the Basis for Conclusions on IFRS 9, it is not clear whether the change in interest calculation from the

beginning of the subsequent reporting period is a requirement or a practical expedient. Some of those who view this as a practical expedient consider that the revised interest calculation from earlier dates/periods is acceptable, if practicable.

Staff analysis

79 The staff note that paragraph 5.4.1 (b) of IFRS 9 says '…the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.' The use of 'shall' indicates that this is a requirement. Paragraph BC5.78 of Basis for Conclusions on IFRS 9 does not override the requirement in paragraph 5.4.1(b) of IFRS 9. Consistent with the nature of a basis for conclusions explanation, paragraph BC5.78 simply provides insights into the IASB's rationale behind the requirements in paragraph 5.4.1(b) of IFRS 9, and it neither provides a practical expedient nor a policy choice. Therefore, in the staff's view, it is clear that for financial assets that become credit-impaired, entities are required to measure the interest revenue on the basis of the net carrying amount (gross carrying amount less ECL) from the start of the reporting period after they became credit-impaired. In the staff's view, no further clarification to the requirements of IFRS 9 is considered necessary.

80 **The IASB staff recommend that no action is taken on this question, as IFRS 9 provides an adequate basis to determine when interest revenue is measured based on a net carrying amount.**