EFRAG FR TEG meeting
15 May 2024
Paper 02-04
EFRAG Secretariat: Galina Borisova, Sergey Vinogradov, Didrik Thrane-Nielsen

PIR IFRS 9 Impairment

Interaction of impairment requirements with other requirements

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 interaction between the impairment requirements and the requirements:

(a) in IFRS 9 relating to modifications, derecognition (including forgiveness) and write-off of financial assets; and

(b) in other IFRS Accounting Standards.

Structure of this paper

2 This paper is structured as follows:

(a) Definition of a credit loss;

(b) Interaction of impairment requirements with other requirements in IFRS 9;

3 Appendix A summarises the IASB staff assessment of the topics against PIR criteria.

4 Appendix B summarises other comments received and the IASB staff analysis of those comments.

The IASB staff recommendation

5 Based on the analysis in this paper, the IASB staff recommend:

(a) considering the interaction of the impairment requirements in IFRS 9 with the application questions on modification of financial assets (including modifications that lead to derecognition) and write-off requirements in forthcoming *Amortised Cost Measurement* project.

(b) taking no action on matters identified regarding the interaction between impairment requirements in IFRS 9 and the requirements in other IFRS Accounting Standards.

The IASB tentative decision

6 14 of 14 IASB staff members agreed with the IASB staff recommendations.

7 Members highlighted the importance of communication that the issues are not disregarded but will be considered withing forthcoming *Amortised Cost Measurement* project which will start after the PIR on Impairment is finalised.

8 On the "all cash shortfall" members noted that all cash shortfalls and not only the ones related to credit should be considered, but this is already in the standard, and the IFRS IC agenda decision makes it clear. Therefore, nothing more can be done.

Summary of feedback received by the IASB

9 The interaction of the impairment requirements, including the definition of a credit loss, with the other requirements in IFRS 9 is one of the areas that attracted most feedback in this PIR.

10 Most respondents said that the interaction of the impairment requirements with other requirements in IFRS 9 is generally well understood. However, a large majority of these respondents identified several challenges and application questions.

11 In addition, many respondents commenting on these challenges said that the IFRS IC agenda decision regarding *'Lessor Forgiveness of Lease Payments'* has created ambiguity about the meaning of 'credit losses'. Specifically, whether the definition of a 'credit loss' in Appendix A of IFRS 9, which refers to 'all cash shortfalls', means that an entity is required to reflect all changes in expected cash flows resulting in an expected cash shortfall as an adjustment to ECL. Some of these respondents said that, prior to this agenda decision, it was widely understood that credit losses only capture the expected cash shortfalls arising from credit events.

12 A few respondents also identified other application questions regarding the interaction of the impairment requirements with the requirements in other IFRS Accounting Standards, including IFRS 16 *Leases* (see Appendix B for the IASB staff analysis).

13 The IASB discussed the application questions on interaction of the impairment requirements with the requirements in IFRS 15 *Revenue from Contracts with Customers* in Agenda Paper 6A of the IASB's April 2024 meeting.

Definition of a credit loss

Summary of the feedback received by the IASB

14 Many respondents who said that the IFRS IC decision in October 2022 created ambiguity about the meaning of 'credit losses', also said that IFRS 9 does not provide sufficient guidance:

(a) to distinguish between changes in expected cash flows that represent ECL and those representing modifications, revisions of estimated contractual cash flows (applying paragraph B5.4.6 of IFRS 9), derecognition (including forgiveness) and write-off of financial assets; or

(b) to determine the order in which these requirements are applied, if more than one set of requirements is applicable to a specific fact pattern.

15 In the view of some respondents, recognition of ECL should be limited to the cash shortfalls attributable to the deterioration of credit risk only, and not to all cash shortfalls. They consider this approach to be consistent with the concept of significant increases in credit

risk and definition of expected credit losses in Appendix A of IFRS 9 which makes reference to credit losses.

16 These respondents raised significant concerns with the accounting outcome of recognising ECL for a cash shortfalls that do not arise from borrower's credit risk deterioration - in their view, such an outcome would not faithfully represent the economic substance of the change in expected cashflows. They provided an example of 'payment holidays' - where a borrower might have a legal entitlement to a 'payment holiday' for a specified period regardless of whether it is in financial difficulty or not.

17 A few respondents suggested to incorporate the conclusions from this IFRS IC discussion into IFRS 9, but many others said this topic requires a broader consideration and the outcome might not be applicable to other fact patterns even if they appear similar to the one discussed by IFRS IC.

18 These respondents assigned either high or medium priority to this issue, because matters relating to the definition of credit losses are fundamental to the requirements for recognition of ECL. Therefore, in their view, it is important that the IASB develops guidance to support consistent application in this area.

EFRAG comment letter

19 The feedback received is consistent with the concerns expressed in EFRAG comment letter.

20 EFRAG, in the context of IFRS IC agenda decision, asked the IASB to clarify 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. EFRAG assigned a high priority to this issue as it creates uncertainty about the boundaries of credit risk.

21 EFRAG also noted that applying the definition of credit loss to all cash shortfalls, without limiting them to credit risk related events, is blurring the line between ECL and contract modification.

IASB staff analysis and recommendations

22 The IASB staff **does not share the view of some respondents that the reason or the nature of the events** that led to an expected cash shortfall **is the determining factor** as to **whether a change in expected cash flows represents an adjustment to ECL or an adjustment to the gross carrying amount of a financial asset**.

23 The IASB staff note that isolating a single reason or event that led to a change in expected cash flows might not always be possible, because, in many cases, a combination of reasons or events might have led to a change in the expected cash flows.

24 IASB staff notes that Appendix A of IFRS 9 defines gross carrying amount as the amortised cost of a financial asset before adjusting for any loss allowance. Therefore**, there is a natural order for determining whether a change in expected cash flows is accounted for as an adjustment to the gross carrying amount of a financial asset or as an adjustment to the ECL.** Accordingly, applying IFRS 9, an entity assesses:

(a) first, **whether the IFRS 9 requirements for adjusting the gross carrying amount of a financial asset are met**; and[1]

(b) **then**, if the change does not require an adjustment to the gross carrying amount, the entity assesses **whether the change meets the definition of a credit loss and therefore should be accounted as ECL**. This assessment is based on reasonable and supportable information that is available at that time.

25 Paragraphs BC5.240 and BC5.241 of IFRS 9 provide rationale for the requirement of establishing the appropriate gross carrying amount first, based on which the ECL is then determined. They explain that an entity should adjust the gross carrying amount of a financial asset if it modifies the contractual cash flows and recognise modification gains or losses in profit or loss.

26 The IASB staff explains that **IFRS 9 requires a decoupled approach to interest revenue and recognition of ECL**. Not adjusting the carrying amount upon a modification would result in inflating interest revenue and the loss allowance for financial assets. It is specifically noted that for example, if credit losses are crystallised by a modification, an entity should recognise a reduction in the gross carrying amount. However, sometimes adjusting the gross carrying amount could result in recognition of a gain.

27 In the IASB staff's view, there is no ambiguity in the definition of a credit loss and in accordance with paragraph B5.5.28 of IFRS 9**, a credit loss represents the present value of <u>all cash shortfalls</u> regardless of whether they result from a borrower being in financial difficulty or not**.

28 The IASB staff is, therefore, of view that if an entity has reasonable and supportable information that it will not receive some of the contractual cash flows of a financial asset, and does not account for such expected cash shortfalls as ECL because they are not attributable to a deterioration in credit risk, **it will not be complying with the objective of the impairment requirements in IFRS 9.** Furthermore, **such an outcome would reduce the usefulness of information** to users of financial statements.

29 Therefore, the IASB staff recommend taking no further action on matters raised by respondents regarding the definition of a credit loss.

30 The IASB staff also considers that the order of application of the requirements in IFRS 9 is clear. If the IFRS 9 requirements for adjusting the gross carrying amount of a financial asset are met, an entity first adjusts the gross carrying amount of the financial asset and then determines the ECL associated with that adjusted amount.

31 However, they acknowledge that the **lack of clarity** regarding the application of paragraphs 5.4.3, 5.4.4, B5.4.6 and 3.2.3 of IFRS 9 has led to confusion amongst stakeholders in determining **whether an expected cash shortfall represents an adjustment to gross carrying amount of a financial asset or an adjustment to ECL**. The IASB had tentatively decided to consider **clarifying these requirements as part of the forthcoming *Amortised***

[1] The requirements for modification of financial assets' cash flows (paragraph 5.4.3 of IFRS 9) and accounting for changes in expected cash flows of financial assets applying paragraph B5.4.6 of IFRS 9 adjust the gross carrying amount of the financial asset. When considering derecognition or part derecognition of financial assets including forgiveness (paragraph 3.2.3 of IFRS 9) and write-off (paragraph 5.4.4 of IFRS 9), an entity also considers whether the gross carrying amount (or part of it) should be removed from the statement of financial position.

***Cost Measurement* project.** The IASB staff expects that it would address respondents' concerns about distinguishing credit losses from other changes in expected cash flows.

EFRAG Secretariat analysis

32 The EFRAG Secretariat agrees that paragraph B5.5.28 of IFRS 9 defines expected credit losses as "a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument" and notes the IASB staff conclusion that the nature of the event which caused a cash shortfall is not important (being it financial difficulty of the borrower or a commercial or other reason, e.g. payment holidays).

33 The EFRAG Secretariat acknowledges the IASB staff arguments about the need to assess if a change in expected cash flows is accounted for as an adjustment to the gross carrying amount of a financial asset or as an adjustment to the ECL and notes that the accounting outcome in two situations will be different (modification gain/loss vs impairment). Hence, not all cash shortfalls will be included in the ECL, but only those which do not result in the adjustment to the gross carrying amount of the financial asset.

34 As a result, the EFRAG Secretariat considers that a clarification whether an expected cash shortfall represents an adjustment to gross carrying amount of a financial asset or an adjustment to ECL would be useful.

Interaction of impairment requirements with other requirements in IFRS 9

Summary of the feedback received by the IASB

35 Many respondents commented that same requirements apply for modification or restructuring of credit-impaired financial assets (e.g. forbearance) and non-credit-impaired financial assets (e.g. commercial renegotiation)[2].

36 They noted the following challenges:

(a) *presentation issues:* When a modification is related to forbearance, it seems unclear whether modification gains or losses should be presented in the impairment line item in the statement of profit or loss or as an adjustment to the gross carrying amount of the financial asset, and consequently presented separately as a modification gain or loss. Whilst separate presentation might be intuitive for a commercial restructuring, in these respondents' view, it is not intuitive for forbearance because the recognition of a modification loss results in the ECL being reversed (reduced) and therefore, a credit being recognised in the impairment line in the statement of profit or loss applying the requirements in paragraph 5.5.8 of IFRS 9.

[2] In this context, forbearance refers to modifications where a lender grants a concession to the borrower because of its financial difficulties, with the aim of recovering as much as possible of the principal outstanding (for example a lender has forgiven part of the principal of the loan or has restructured more than one loan facility in the same restructuring deal with a number of changes including additional fees as part of the restructuring). In contrast, a commercial renegotiation refers to instances where a borrower is able to refinance instruments at an on-market rate offered by a number of different lenders (where for example the contractual interest rate or tenor of the existing loan might be changed).

(b) *potentially misleading ECL amount being recognised:* When a financial asset - for which lifetime ECL had been recognised - is restructured because the borrower is in financial difficulty, and this leads to derecognition, the new financial asset would be recognised with a 12-month ECL unless it is considered to be originated credit-impaired. These respondents view the decrease from lifetime to 12-month ECL to be counterintuitive, because the reason that led to a forbearance was the deterioration in credit quality in the first place.

(c) *regulatory intervention:* Prudential regulators in some jurisdictions might prefer that entities do not derecognise a financial asset that was subject to forbearance but treat it as a modified asset instead. This might give rise to diversity in practice between regulated and unregulated entities.

37 Many respondents also asked for further guidance about the order in which entities shall apply IFRS 9 requirements, i.e. whether the requirements for write-off (e.g. part derecognition), modifications or impairment are applied first.

38 Some respondents suggested to consider findings from PIR on impairment in the forthcoming *Amortised Cost Measurement* project. In particular they noted that the requirements for modification of financial assets in paragraph 5.4.3 of IFRS 9 are less specific than the requirements of paragraph B3.3.6 of IFRS 9 for financial liabilities. Paragraph 5.4.3 only refers to 'modifications that did not result in derecognition' without providing any further guidance on how to assess if that is the case, leading to diversity in practice. Whether the modification results in derecognition or not, could have a significant consequential impact on measuring ECL and related disclosures.

39 Some respondents noted various challenges for accounting and presentation of write-off losses, such as:

(a) *accounting for a write-off*, particularly for a financial asset for which the *amount to be written-off is greater than the ECL* recognised before the asset is written-off. In such cases, they asked whether the write-off should be accounted for by reducing the gross carrying amount of the financial asset or the write-off should be considered as realisation of losses already reflected in ECL, therefore only accounting for the difference (amount to be written-off less ECL already recognised) as an additional impairment loss in profit or loss.

(b) *the recognition of recoveries from amounts previously written-off* (whether recoveries are recognised when cash is received or when likelihood of recovery becomes virtually certain). Some respondents also said that the lack of guidance on presentation of these recoveries leads to diversity in the statement of profit or loss.

40 A few respondents asked to clarify what is meant by 'no reasonable expectation of recovering a financial asset' (paragraph 5.4.4 of IFRS 9), explaining that the lack of guidance led to diversity in practice, resulting in more conservative approaches (early write-off) in some jurisdictions.

EFRAG comment letter

41 The feedback received by the IASB is in line with EFRAG comment letter.

42 EFRAG suggested the IASB should clarify the interaction between modification, impairment, and derecognition requirements in IFRS 9. This is because the allocation of the

accounting effects to the three events (and the consequent presentation in the statement of profit or loss) depends on several factors and interpretations (e.g., the reason that causes the modification and/or the derecognition – commercial opportunities, financial difficulties of the borrower – or the order in which an entity considers the different elements).

43 In its comment letter EFRAG reported the presentation issue of modification gains and losses vs ECL for the assets modified due to different reasons and the issue of presentation of write-off losses where the amount of write-off is greater than ECL. In this context EFRAG also asked for further application guidance for the requirement "has no reasonable expectation of recovering" (paragraph 5.4.4 of IFRS 9).

44 EFRAG as well reported the issue of the counterintuitive amounts of ECL on the restructured loans which are derecognised and then recognised as a new asset which is not credit impaired.

IASB staff analysis and recommendations

45 The IASB staff reminded that when developing IFRS 9, the IASB considered, but rejected, limiting the modification requirements to modification of credit-impaired assets or modifications undertaken for credit risk management purposes. The IASB decided that **modification requirements apply to all modifications or renegotiations of contractual terms**, regardless of whether they have been performed for commercial or other reasons that are unrelated to credit risk management (see paragraphs BC5.231−BC5.235 of IFRS 9).

46 The IASB rationale for this decision is summarised below:

(a) Operational difficulties reported by stakeholders to determine the reason of modifications;

(b) Not differentiating between the reasons for modification is consistent with previous requirements in paragraph AG8 of IAS 39 *Financial Instruments: Recognition and Measurement;*

(c) No matter what the reason for modification is, any change in the contractual terms will have a consequential effect on the credit risk of the financial instrument since initial recognition and will affect the measurement of the loss allowance;

(d) The difficulty involved in discerning the purpose of modifications, and to what extent a modification is related to credit risk reasons, could create opportunities for manipulation and result in different accounting treatments for the same economic event.

47 Therefore, in the IASB staff's view, **developing requirements that distinguish between forbearance and commercial renegotiations might not be appropriate**.

48 The IASB staff do not share the same concerns that the requirements of paragraph B5.5.26 are counterintuitive in cases of forbearance (see paragraph 36(b) of this paper). This is because, if the probability of default has been reduced as a result of the modification (i.e. the new terms are more affordable for the borrower) and the new asset no longer meets the requirements for the recognition of lifetime ECL, then the requirements for measuring ECL should allow the loss allowance on such newly recognised assets to be measured at an amount equal to 12-month ECL, consistent with the treatment of unmodified financial assets. The IASB reasoning for not allowing the asymmetrical treatment of modified financial assets due to the reason of modification is described in paragraphs (BC5.238 and BC5.239 of IFRS 9).

49 The IASB staff note that IFRS 9 does not prescribe which line item a modification gain or loss should be presented in the statement of profit or loss. The staff also note that, in the view of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG), as concluded in their April 2015 meeting, **modification gains or losses should be presented separately from the impairment losses and their reversals**.

50 However, the IASB staff acknowledge that **the presentation of modification gains or losses might require further consideration**, because of close interaction between forbearance and impairment requirements in IFRS 9.

51 Regarding the order of application of requirements, if a financial asset is modified as part of forbearance and an entity plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then the entity might need to consider whether any portion of the financial asset should be written-off before the modification takes place.

52 This is because an impending forgiveness of particular cash flows might mean that the lender has no reasonable expectation of recovery of those cash flows, therefore the entity first reduces the gross carrying amount of the financial asset accordingly before assessing whether the modification is a substantial modification or not. If modification was substantial the lender will be required to assess the ECL in accordance with paragraphs B5.5.25 and B5.5.26 of IFRS 9.

53 However, the IASB staff acknowledge that **the sequence or hierarchy of modifications and expiry of the contractual rights to cash flows, and the consequential impact on recognition of ECL might not always be clear.**

54 The IASB staff reminds that the forthcoming *Amortised Cost Measurement* project, amongst other application issues, aims to clarify:

(a) what constitutes a modification including the interaction of (or the boundary between) modification and expiry of the rights to cash flows (i.e. modification vs derecognition);

(b) the sequence or hierarchy of modifications, and expiry of the contractual rights to cash flows; and

(c) treatment of fees and costs resulting from the modification of an original contract[3].

55 The IASB staff agree that potential clarifications to the requirements regarding what constitutes a modification and modifications that lead to derecognition might have a consequential impact on measuring ECL, hence they recommend that the IASB, in its *Amortised Cost Measurement* project also considers the **potential impact of these requirements on measuring ECL**.

[3] The IASB had already amended paragraph B3.3.6 of IFRS 9 and added B3.3.6A to address accounting treatment of fees and costs resulting from the modification of a financial liability, but no similar guidance has been added for fees and costs resulting from the modification of a financial asset.

56 The IASB staff **does not recommend adding specific guidance on how to assess whether there is no reasonable expectation of recovery**, because in their view it will always involve judgement when considering entity's specific circumstances and **would not eliminate the diversity observed in practice**.

57 IFRS 9 requirements in section 5.5. require entities to provide timely information about ECL. In the IASB staff's view, an entity have to consider increasing the ECL amount on a financial instrument in a timely manner, adequately in advance of reaching the point of no reasonable expectation of recovery - when a write-off is appropriate. Consequently, **the IASB staff do not expect cases in which the amount to be written-off being greater than the ECL to be prevalent**.

58 The IASB staff notes that IFRS 9 does not provide further guidance on how to present a write-off loss in the statement of profit or loss or how to account for subsequent recoveries of a financial asset that has been written-off. The IASB staff does not expect such recoveries to be frequent.

59 However, the IASB staff acknowledge that there are still application questions about the accounting for subsequent recoveries of a financial asset following a write-off, such as whether the recoveries constitute the recognition of a new financial asset or the re-recognition of the previously written-off asset.

60 Considering the above the IASB staff recommend **taking no action on differentiating the accounting outcome between different types of modifications** based on the reason for the modification.

61 The IASB staff recommends **the IASB holistically considers as part of the forthcoming *Amortised Cost Measurement* project:**

(a) **the requirements for presentation of modification gains or losses resulting from forbearance**

(b) **interaction between modification and derecognition requirements and the consequential impact on recognition of ECL;** and

(c) **the requirements for the presentation of a loss arising from writing-off a financial asset** in the statement of profit or loss and the **accounting for any post write-off recoveries**.

EFRAG Secretariat analysis

62 The EFRAG Secretariat agrees with the IASB staff recommendation and the IASB tentative decision to consider the issues described in paragraph 61of this paper in the IASB forthcoming *Amortised Cost Measurement* project. The EFRAG Secretariat notes that this project is expected to start in 2nd half of 2024. All these issues of interaction between impairment, modification and derecognition requirements in IFRS 9 were raised in EFRAG's comment letter with a high priority assigned to them.

63 The EFRAG Secretariat also agrees with the IASB staff recommendation to take no action on differentiating the accounting outcome between different types of modifications. In the EFRAG Secretariat view, this differentiation is a presentation issue and will be addressed as a part of presentation of modification gains or losses resulting from forbearance, described above.

EFRAG FIWG feedback

64 EFRAG FIWG members noted that a number of significant issues was pushed to the *Amortised Cost Measurement* project and urged the IASB to start it as soon as possible to address these issues.

65 One EFRAG FIWG member agreed with the EFRAG Secretariat assessment that further clarification would still be helpful in some areas despite of the IASB tentative decisions not to take further action.

66 Members also highlighted the difficulties the IASB faces in addressing the cross-cutting issues between the IFRS Accounting Standards and suggested that the IASB should consider the potential interaction between the Standards when developing the new or amended requirements, i.e. before PIR. Including this step in the due process could be one of the options.

Questions to EFRAG FR TEG

67 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:

(a) the definition of a credit loss;

(b) on differentiating the accounting outcome between different types of modifications based on the reason for the modification?; and

(c) the interaction between impairment requirements in IFRS 9 and the requirements in other IFRS Accounting Standards?

68 Does EFRAG FR TEG agree with the IASB staff analysis and the IASB tentative decision to holistically consider in the forthcoming *Amortised Cost Measurement* project the points (a) to (c) of paragraph 61 of this paper?

69 Does EFRAG FR TEG have any comments on the EFRAG Secretariat analysis?

Appendix A – The IASB staff assessment of whether and when to take action in response to PIR feedback

The IASB staff assessment against PIR criteria is presented below.

PIR evaluation requirements	The IASB staff response
1. Are there fundamental questions (i.e. 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements?	**No** Almost all respondents shared the view that there are no fatal flaws regarding the clarity and suitability of the core objectives or principles in the impairment requirements in IFRS 9. Most respondents identified some specific areas for which further clarification and additional application guidance might be needed to support consistent application of impairment requirements alongside other requirements in IFRS 9. Notwithstanding the consequential impact on ECL, the IASB staff note that these issues are arising primarily from application questions on other requirements in IFRS 9, rather than the impairment requirements.
2. Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?	**Yes** Many respondents raised concerns that there is insufficient guidance for entities to distinguish between credit losses, modification losses, revision of estimated contractual cash flows (application of paragraph B5.4.6 of IFRS 9), derecognition losses and write-off losses. Lack of guidance results in diversity in practice which affects the usefulness of information to users of financial statements. Because some of these concerns stem from application questions pre-dating IFRS 9 and fall under the scope of the forthcoming *Amortised Cost Measurement* project,

	the IASB staff recommend that specific application questions arising from applying impairment requirements alongside other requirements of IFRS 9 are considered as part of that project.
3. Are the costs of applying some or all of the impairment requirements in IFRS 9 and auditing and enforcing their application significantly greater than expected?	**Yes** Feedback indicates that insufficient application guidance on the interaction between IFRS 9 requirements on modifications, revision of estimated contractual cash flows (application of paragraph B5.4.6), derecognition and write-off and the consequential impact on measuring ECL has resulted in significant application, audit and enforcement challenges.

70 When *Amortised Cost Measurement* project was added to the research pipeline, the IASB noted that any decision on starting a standard-setting project will also consider potential findings of the PIR of the impairment requirements in IFRS 9.

71 The related matters identified in this PIR (as summarised in paragraph 6161 of this paper) would therefore be considered as part of the forthcoming *Amortised Cost Measurement* project, when determining its scope.

72 Accordingly, the IASB staff do not consider it necessary to separately assess the priority of the matters identified in this paper. They recommend taking no other action on these matters.

Appendix B - Analysis of other comments

The following tables provide application questions identified by a few respondents about the interaction between IFRS 9 impairment requirements and other requirements. Based on the IASB staff analysis, the IASB staff conclude **no further action is required for these matters**.

Requirements	Application question	The IASB staff analysis
A1. Modification and/or derecognition of loan commitments		
Paragraph 2.1(g) of IFRS 9 states that all loan commitments are in scope of derecognition requirements of IFRS 9.	A few respondents said that it is unclear whether the existence of lender's ability to revise the terms and conditions of a loan commitment facility based on periodic credit reviews: (1) would be regarded as triggers for derecognition; and (2) would also limit the life of the facility for the purposes of ECL measurement. They said that it is unclear how entities are required to determine when changes are substantial resulting in a derecognition of the original facility and recognition of a new facility and suggested that the IASB provides guidance on how to connect modification and derecognition requirements in IFRS 9 with the characteristics of revolving credit facilities or financial instruments comprising a drawn amount and an undrawn commitment	(1) Modification and derecognition of loan commitments The forthcoming *Amortised Cost Measurement* Project aims to clarify the boundary between modifications and derecognition requirements for financial instruments. Therefore, when determining the scope of that project, the modification and derecognition of loan commitments (including loan commitments in scope of Section 5.5 of IFRS 9) could also be considered. (2) Period considered for purposes of measuring ECL In the staff's view, the lender's ability to revise the terms and conditions of the facility based on periodic credit reviews, would not automatically limit the term of the facility to the period up to the review, for the purposes of measuring ECL. Although the ability to modify a contract before the end of the

Requirements	Application question	The IASB staff analysis
		contractual term might trigger a substantial modification assessment that may eventually result in the derecognition of the facility and/or any drawn amounts, such an outcome cannot typically be estimated at the inception of the facility. Therefore, when determining ECL, an entity would be required to consider the maximum contractual period over which it is exposed to credit risk of a financial instrument, and for loan commitments period over which it has a present contractual obligation to extend credit as per the requirements in paragraphs 5.5.19–5.5.20 and B5.5.38 of IFRS 9. **The *Amortised Cost Measurement* Project aims to clarify the boundary between modifications and derecognition requirements for financial instruments. In the IASB staff's view, no further clarification to the remaining requirements of IFRS 9 is considered necessary.**
A2. Contractually linked instruments (CLIs)		
Paragraph B4.1.20 of IFRS 9 states that in some types of transactions, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments (tranches). Each tranche has a subordination ranking that specifies	A few respondents commented that it is not clear how the definition of credit losses apply when calculating the ECL of a CLI, for which the issuer of the instrument is not required to make payments to holder to the extent that it does not receive sufficient cash from the underlying pool of assets. Because a 'cash shortfall' is	Although this application question was asked in reference to CLI instruments, in the IASB staff's view, the same question could also apply to instruments with non-recourse features, i.e. contractual features that limit an entity's ultimate right to receive cash flows, to the cash flows generated by specified assets

Requirements	Application question	The IASB staff analysis
the order in which any cash flows generated by the issuer are allocated to the tranche. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches. Appendix A of IFRS 9 defines a credit loss as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).	the difference between the contractual cash flows that are due to the entity under the contract and the cash flows that the entity expects to receive, and it might be argued that for such a CLI this difference is generally zero.	(see paragraph B4.1.16 of IFRS 9 and the forthcoming amendments to IFRS 9 regarding the classification and measurement of financial assets) or any other financial asset arising from a pass-through transfer that meets the conditions listed in paragraph 3.2.5 of IFRS 9. Therefore, in the IASB staff's view, an entity is first required to determine the revised gross carrying amount of the CLI instrument, taking into account revised estimated contractual cash flows, then assess the ECL of that revised gross carrying amount accordingly. **The IASB staff recommends no action, as the feedback on this matter does not provide evidence that the requirements for determining ECL for CLIs are unclear or insufficient.**
A3. IAS 10 Events after the reporting period		
Paragraph 9(b)(i) of IAS 10 *Events after the reporting period* provides the bankruptcy of a customer that occurs after the reporting period as an example of an adjusting event, because bankruptcy confirms that the loan	A few respondents asked for clarification on whether and how to adjust the ECL amounts when this amount at the reporting date already considers the possibility of bankruptcy because it represents a probability-weighted amount as required by IFRS 9. For example, they asked whether an entity would be required to	Paragraph 3(a) of IAS 10 defines adjusting events as those that provide evidence of conditions that existed at the end of the reporting period. Bankruptcy of a customer is considered an adjusting event, because conditions indicating a possible bankruptcy after the reporting date *would have been*

Requirements	Application question	The IASB staff analysis
was credit-impaired at the end of the reporting period.	override the probability-weighting as at the reporting date and assign a 100% weighting once such an adjusting event occurs.	*expected to exist at the end of the reporting period (i.e. reporting date).* Paragraph 5.5.17(c) of IFRS 9 requires that an entity shall measure ECL in a way that reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. IFRS 9 does not specifically require new information that becomes available after the reporting date to be reflected in the measurement of ECL at the reporting date. Because at the reporting date, the probability of bankruptcy is expected to exist, an entity would be expected to take this scenario into consideration with its appropriate weighting using the information available at the reporting date when determining the ECL as at that date. **The IASB staff recommends no action, as feedback does not indicate that the matter is pervasive or expected to have substantial consequences.**
A4. Accrued operating lease income		
Paragraph 2.1(b)(i) of IFRS 9 specifically states that finance lease receivables and operating lease receivables (i.e. individual payments currently due and payable by the	Paragraph 107 of IFRS 15 requires an entity to assess a contract asset for impairment in accordance with IFRS 9. A few respondents noted that, in IFRS 16, the lessor accounting requirements for operating leases do not	In the IASB staff's view, the requirements in paragraph 2.1(b)(i) of IFRS 9 are clear that a lessor is only required to apply the impairment requirements in IFRS 9 to an operating lease receivable from the

Requirements	**Application question**	**The IASB staff analysis**
lessee) are in the scope of the IFRS 9 requirements for measuring ECL.	include a similar reference to IFRS 9 impairment requirements for accrued operating lease income, even though such balances are similar in nature to contract assets that an entity recognises under its contracts with customers applying IFRS 15. These respondents asked the IASB to consider including accrued operating lease income in scope of IFRS 9 impairment requirements as well.	date on which it recognises that receivable. Accrued operating lease income does not represent an operating lease receivable, i.e. an amount due and payable by the lessee to the lessor, and therefore is not subject to impairment requirements of IFRS 9. **The IASB staff recommends no action, as the matter does not relate to impairment requirements in IFRS 9. The IASB staff recommend sharing this matter with the IFRS 16 PIR Project Team who might consider it as part of the forthcoming PIR of IFRS 16.**
A5. Unguaranteed residual value		
Paragraph 77 of IFRS 16 states that a lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.	A few respondents asked the IASB to clarify whether a lessor is required to exclude the unguaranteed residual value of the asset being leased under a finance lease from the measurement of ECL in accordance with IFRS 9.	Whilst paragraph 77 of IFRS 16 is clear that a reduction in the unguaranteed residual value affects the income allocation, IFRS 16 does not provide explicit guidance on whether the change is reflected in finance lease income or impairment expense. **The IASB staff recommends no action, as the matter does not relate to impairment requirements in IFRS 9. The IASB staff recommend sharing this matter with the IFRS 16 PIR Project Team who might consider it as part of the forthcoming PIR of IFRS 16.**
A6. Presentation – interaction with lessor accounting in IFRS 16		
As per paragraph 82(ba) of IAS 1 *Presentation of financial statements*,	A few respondents asked the IASB to clarify:	Regarding presentation of impairment losses in statement of profit or loss, paragraph 82(ba) of IAS 1

Requirements	Application question	The IASB staff analysis
impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9 are presented in a separate line item in the statement of profit or loss.	• presentation in the statement of profit or loss: Specifically, whether a lessor is required to present impairment losses in profit or loss separately (i.e. paragraph 82(ba) of IAS 1) or a lessor is permitted to present those amounts within finance income (i.e. because paragraph 82(ba) of IAS 1 is intended to apply only to assets entirely within the scope of IFRS 9); and • presentation in the statement of financial position: Specifically, whether a lessor is required to present the 'net investment in the lease' including the ECL allowance or should the allowance be presented as a separate amount adjacent to the 'net investment in the lease'.	(paragraph 75 b(ii) of IFRS 18) refers to impairment losses determined in accordance with Section 5.5 of IFRS 9. Therefore, it also includes impairment losses on lease receivables that are in scope of Section 5.5 of IFRS 9 as per paragraph 2.1(b)(i) of IFRS 9. Regarding presentation of the ECL allowance of a lease receivable in the statement of financial position, the staff note that the matter does not arise from the requirements in IFRS 9 and therefore, might be more effectively considered during the PIR of IFRS 16. **The IASB staff recommend sharing this matter with the IFRS 16 PIR Project Team who might consider it as part of the forthcoming PIR of IFRS 16.**
A7. Interaction between IFRS 9 and IFRS 17 *Insurance Contracts*		
IFRS 17 *Insurance Contracts* is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract. In applying IFRS 17, premiums from a policyholder collected through an intermediary is included in the measurement of a group of insurance contracts. However, IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are	A few respondents asked the IASB to consider the interaction between IFRS 9 and IFRS 17, without including any specific application questions or fact patterns. One respondent explained that it is not clear whether insurance premium receivables are included within the measurement of insurance contracts under IFRS 17 or are subject to impairment requirements of IFRS 9, which may lead to diversity in practice.	It is not clear from the feedback whether there are any significant issues regarding the application of IFRS 9 requirements for measuring ECL in conjunction with IFRS 17 or how pervasive these issues are. In regard to premium receivables, IFRS IC received a submission in March 2023 about how an entity that issues insurance contracts (insurer) accounts for premiums receivable from an intermediary, and concluded in October 2023 that a project would not be sufficiently narrow in scope that neither the IASB

Requirements	Application question	The IASB staff analysis
removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash. Therefore, an insurer can apply an accounting policy choice that premiums receivables remain in the measurement of a group of insurance contracts under IFRS 17 until recovered or settled in cash or it is removed from the measurement of the group of insurance contracts and is recognised as a separate financial asset under IFRS 9.		nor IFRS IC could address the issue in an efficient manner. IFRS IC therefore decided not to add a standard-setting project to the work plan. **Accordingly, in the IASB staff's view, no further clarification to the requirements of IFRS 9 is considered necessary.**