Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2022:03

International Accounting Standards Board
Columbus Building,
7 Westferry Circus
Canary Wharf
London E14 4 HD
United Kingdom

Dear Board members,

Re: Post-Implementation Review – IFRS 9 Financial Instruments Classification and Measurement

The Swedish Financial Reporting Board (SFRB) is responding to your invitation to comment on the *Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement.*

In general the measurement and classification principles in IFRS 9 resulted in a reasonable classification of financial instruments when IFRS 9 was implemented in Sweden. However the burden of proving that the banking book fulfilled the SPPI-test was significant and spread movements in stressed market situations have put pressure on the classification.

When SFRB commented on the draft standard we questioned the narrow definition of the SPPI test, considering that the test put too much focus on reference rates and was too narrowly defined. The final version was slightly amended but we still believe that the definition is too narrow which makes the implementation of the standard burdensome since a significant proportion of the banking books of Swedish banks needed to be tested with regards to that the contractual interest fulfilled the SPPI criteria.

We recommend the IASB to review the SPPI criteria. Even though the present classification principles have been manageable in practice we consider that the fast development of financial instruments with embedded ESG features will put a pressure on the SPPI test with regards to if IFRS 9 going forward will properly classify instruments in the fair value or amortised cost categories.

A second issue that we previously have comment on is lack of recycling of equity instruments measured at fair value trough OCI.

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ESG features in financial instruments

ESG features in financial instruments are becoming a prevalent feature in both issued debt instrument and normal lending agreements between banks and their customers. Some of those agreements just offer a slight discount while other instruments have different covenants that may alter the actual interest rate if certain features are fulfilled or in breach. These features were not common when IFRS 9 was issued. We therefore ask the Board to evaluate these features and consider if the present SPPI test properly classify financial instruments in those that may be measured at amortised cost and those that should be measured at fair value.

We consider that this issue is urgent since the demand for green investments is high and we expect that ESG features will be added to new issues of financial instruments in the near future. The current standards classification of which instruments that qualify for the amortised cost category may be an obstacle to this development, and risk making it more difficult for companies to achieve their ESG targets with regards to their investment policies.

Due to the urgence of this issue we recommend that the Board handles this as a separate standard setting project with high priority.

Recycling of equity instruments

As expressed in our comment letter on the review of the conceptual framework in 2015 (RFR-rs 2015:09) we believe that realised gains and losses on items reported as other comprehensive income should be recycled over profit and loss. This would contribute to total profit equalling total cash flow in the long run, something we consider is important to strengthen the position of accrual accounting in general and profit or loss as a summary measurement of performance.

The need for recycling of equity instruments will increase in importance when IFRS 17 is implemented. In IFRS 4 accounting mismatches due to the lack of recycling of equity instruments have by some insurance companies been managed with the help of shadow accounting. Since shadow accounting is not part of IFRS 17, the lack of recycling of equity instruments risk increasing accounting mismatches for those insurance companies that have profit sharing features in their insurance liabilities. We therefore urge the Board to reconsider the ban on recycling the fair value changes of equity instruments recognised in Other Comprehensive Income.

If you have any questions concerning our comments please address our Executive member Carina Edlund by e-mail to: carina.edlund@radetforfinansiellrapportering.se.

Stockholm, 3 January 2022

Yours sincerely

Anders Ullberg
Chairman