Brussels, 13 January 2022
EBF_045458

Ms Chiara DEL PRETE

Chairwoman of the Technical Expert Group
European Financial Reporting Advisory Group
Email: chiara.delprete@efrag.org
cc: didier.andries@efrag.org

Subject: IFRS 9 Financial Instruments – Classification and Measurement –Post-implementation Review

Dear Ms Del Prete, dear Mr Andries,
Dear Chiara and Didier,

On behalf of the European Banking Federation ('EBF'), we are writing to comment on your draft letter in response to the Request for Information - Post-implementation Review, IFRS 9 Financial Instruments – Classification and Measurement, issued by the IASB on 28 September 2021.

We have considered your comments in your published draft letter and we believe that it is mostly aligned with the position of the EBF. Notwithstanding, we would like to bring to your attention certain aspects that are significantly important for banks and others in which the EBF has not reached a common position.

Sustainable finance

We agree with you that the application of the SPPI test to financial assets that have sustainable characteristics needs to be reviewed as a matter of urgency in light of the extensive regulation incoming in Europe and other jurisdictions.

Considering the pressure on banks to promote this type of instruments and the implications in the economics of the banking industry we consider that the review of this project should be given the outmost priority. Moreover, we consider that the IASB's PIR process might be too lengthy so we would encourage the IASB to remove this project from the PIR and deal with it separately via standard setting process (modification of the standard[1]).

IFRS 9 allows amortised cost classification (or FVOCI) if the contractual cash flows of the financial assets represent solely the payments of principal and interest being interest the appropriate remuneration for time value of money, cost of risk and the margin of the instrument.

[1] Also providing educational material specific to this matter

While it is quite intuitive that in the future ESG compliance by counterparties in the long run will mean a lower credit risk, the financial and the non-financial data currently available, both actual and historical, either has not been compiled or it is not available to empirically evidence that, indeed in the long run, ESG compliance by counterparties will mean a lower credit risk. The concrete and operational implementation of the various regulations within the next years will provide further evidence to reach this conclusion.

Accordingly, it follows that the regulatory pressure in certain jurisdictions like Europe will clearly have an impact on the financial performance of companies and the wealth of individuals that do not abide by this ESG targets hence increasing their credit risk.

Additionally, international supervisors and regulators, as well as supervisors and regulators in certain jurisdictions like Europe, share a consensus to consider, from a prudential point of view, that ESG risks are indeed a component of credit risk (but also of other components of basic lending risks within the meaning of IFRS 9) likely to affect the interest rate, and therefore, financial assets with ESG features would be likely to meet the SPPI test, making them eligible for accounting at amortised cost.

Moreover, the regulatory environment that banking institutions are facing drives the industry to offer basic lending facilities (i.e. financial instruments) with ESG features that are becoming the "Business-As-Usual" of the basic lending and in the future a significant part of this lending is expected to be offered with ESG features. Banks do not change the way they manage their business models because of these features and continue in most cases to be managed in a hold-to-collect business model hence a fair value view may not be the measurement that provides the most useful information to users for these basic lending businesses.

However, considering the current accounting framework and data issues, ESG products particularly those related to energy efficiency and emissions characteristics may not always pass, in principle, the SPPI test.

Therefore, we would invite you and the IASB to promote that the standard allows financial assets with ESG features to pass the SPPI test in environments where there is a clear expectation that ESG targets will be promoted or otherwise enforced.

Recycling changes in FV accumulated in OCI for equity instruments

IFRS9 allows that entities may designate investments in equities to be irrevocably measured at FVOCI. Under this option, such entities would not be able to ever recycle through profit and loss account the unrealised gains or losses when the equities under this option are sold. However, the dividends coming from equities under this option would indeed be accounted through the profit and loss account.

On one hand, some of our constituents believe that this accounting treatment for equities designated under this option should be reviewed and allow recycling through the profit and loss account. This would also mean reintroducing impairment on these instruments.

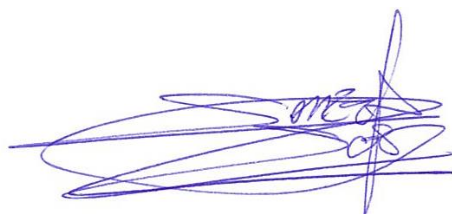
On the other hand, some of our constituents believe that the current accounting treatment is appropriate and they have been able to properly manage their equity portfolio under the

current standard. In particular, our constituents in favour of this option believe that previous impairment test for equities under IAS39 was too ambiguous and difficult to implement.

Therefore we express no opinion on this matter.

On behalf of EBF, we are pleased to contribute to your work and we remain at your disposal should you need further clarifications on our comments.

Yours sincerely,



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