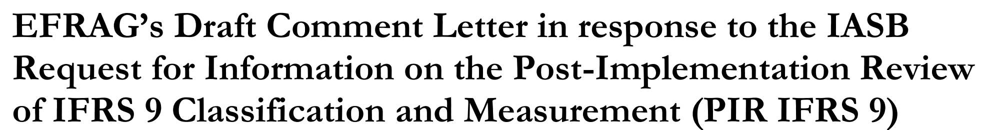
POSITION PAPER



# EFRAG's Draft Comment Letter in response to the IASB Request for Information on the Post-Implementation Review of IFRS 9 Classification and Measurement (PIR IFRS 9)

ESBG (European Savings and Retail Banking Group)

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ESBG

ESBG welcomes the opportunity to comment on the EFRAG's Draft Comment Letter to the IASB request for information on the Post-Implementation Review of IFRS 9 Classification and Measurement (PIR IFRS 9).

We represent the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. ESBG unites at EU level around 900 banks that provide retail banking services, including for certain banks the provision of insurance coverage and related services to their clients.

This letter represents the consensus view of ESBG, including the financial conglomerates that are represented. We believe ESBG is in a good position to comment on the PIR IFRS 9, as all the financial conglomerates and banks have extensive experience with the classification and measurement requirements under IFRS 9 for their banking business, and the former can ground on this to assess what areas of IFRS 9 still remain an issue for applying the classification and measurement requirements to their insurance business.

In most situations, ESBG believes that classification and measurement requirements under IFRS 9 achieve the IASB Board's intended objectives; however, we support the following actions and changes in the standard:

- Considering that the measurement requirements in IFRS 9 do not take into consideration any exceptions for derivatives exclusively entered into and held to manage the interest rate risk in the insurance business (e.g. asset swaps or IRS that support the long-term interest rate guarantees provided to policyholders), we believe financial conglomerates and insurance companies are in urgent need of practical guidance on how to implement the current requirements of hedge accounting to their insurance business. In other words, how the existing practice for hedging strategies in the banking sector can be extended and applied to the insurance sector.

  We believe this is an urgent topic because companies are finalising the implementation of IFRS 9 in their insurance business and will apply the new classification and measurement requirements on the 1st January 2023 at the latest jointly with IFRS 17 to measure the insurance contracts.

- There is also need for urgent guidance in the context of the increasing relevance of sustainability in the members' strategies for the new financial instruments that we issue with ESG features, in particular for loans that incorporate some type of consideration or adjustment in the price of the loan that is linked to ESG features.

  In our view, measuring these financial instruments at amortised cost – e.g. when it is reasonable to assume that providing the ESG features bonification to clients is a trade-off with the overall margin of the loan – leads to useful information for users of financial statements. Accordingly, the IASB should undertake a separate project from the PIR IFRS 9 with the objective to enhance current application guidance in IFRS 9 for these instruments and any other alike.

- Based on the current experience under IFRS 9 and the outcome of the dry-runs that are currently being carried out for the insurance business, the IASB should assess

whether recycling for equities measured at fair value through other comprehensive income should be revisited. In our view the IASB should ensure that (i) profit and loss portrays faithfully the financial performance for all long-term investors and (ii) the current classification and measurement requirements in IFRS 9 do not give rise to accounting mismatches in the financial statements, in particular when IFRS 17 entries into force. Allowing recycling of realised gains or losses to profit or loss would be better aligned with portraying the performance of long-term equity investments for FV-OCI users while mitigating accounting mismatches that arise under certain business models such as insurance.

- Finally, under the current classification and measurement requirements in IFRS 9, investments through an investment fund are compulsory measured at FV-PL. Based on the current experience, this has created accounting volatility in the profit and loss that has been difficult to explain; in particular, when there is a daily regulated representative price for such investment funds available, at which the investor could sell their units. In this case, users may not see clearly the arguments why the accounting treatment of this investment funds is different from the use of the OCI irrevocable option for equities. Therefore, in order to be consistent with its long-term investment perspective and provide a true and fair view of financial performance, investments in investment funds should be eligible for measurement at FVOCI under IFRS 9 when (i) they have a daily representative quoted price, or (ii) a substantial part of the underlying instruments are equity securities or debt instruments that pass the SPPI test.

Please find in the Appendix 1 below, ESBG's responses to the specific questions posed by EFRAG in its draft comment letter, including our view and in Appendix 2 our responses to certain specific questions included in the IASB PIR IFRS 9.

# APPENDIX 1: EFRAG's questions to constituents

**EFRAG Questions to constituents:**

The issues of sustainable finance-SPPI test, recycling changes in FV accumulated in OCI for equity instruments, treatment of equity-type instruments and supply chain financing are indicated as high priorities. Modification of cash flows, contractually linked instruments – non-recourse, factoring of trade receivables and use of administrative rates are indicated as medium priorities. Finally, financial guarantees are indicated as a low priority. Do you agree with the issues raised and their prioritisation as indicated above? Please explain. Do you consider that there are other issues that deserve standard-setting activities? Please provide an illustration.

*ESBG Answer:*

We agree that (i) issues of sustainable finance SPPI test, (ii) recycling changes in FV accumulated in OCI for equity instruments, and (iii) treatment of equity-type instruments should be high priorities for the IFRS 9 PIR. As representatives of the financial industry, we do not believe that supply chain financing is a high priority issue. If such topic was included in the IFRS 9 PIR, an assessment should be carried out considering the issues from borrowers and lenders, not only from the perspective of borrowers.

As it is said in the introduction of this letter, within ESBG there are financial conglomerates with insurance business activities. We would like to reiterate that for the insurance businesses it is relevant to review the recycling changes in OCI for equity and equity type instruments and to make progress in the area of hedge accounting.

Although we acknowledge that the current PIR of IFRS 9 is focused on the Classification and Measurement requirements in IFRS 9, there is some tangential relationship between the use of derivatives in the insurance business and how these are being measured under IFRS 9.

According to IFRS 9, all derivatives should be measured at FV-PL. However, entities have the option to designate a hedging relationship between a hedging instrument and a hedged item, and accounting for the gain or loss on the hedging instrument and the hedged item in accordance with the standard requirements.

In our view, there isn't enough guidance for entities that may want to set a hedging relationship between an asset swap and the net cash flows resulting from their combined investment portfolio and insurance contracts liabilities when these are measured under the general model in IFRS 17. In some European countries is very usual to use a bond combined with an asset swap as an investment in order to cover the liabilities arising from insurance contracts (mostly pension-related immediate annuities that have a fixed interest rate guarantee that does not change over time). In this case, the asset swaps are not for speculation or negotiation purposes, they are strictly held to match the cash flows arising from the insurance liabilities. However, IFRS 9 current measurement requirements do not have any exception for such type of derivatives; accordingly, we believe it is appropriate to bring this topic in the context of the PIR.

Insurance companies are currently facing significant challenges to demonstrate the ability and practicability to apply hedge accounting to their insurance contract liabilities; therefore it is very important to analyze this topic with EFRAG, the IASB and to find a workable approach for these asset swaps (and any other type of derivatives that may be used across

Europe) in the context that first time application of IFRS 9 and IFRS 17 are imminent for the insurance businesses.

IFRS 17 allows insurers to decide whether the impact of changes in economic or financial assumptions will be accounted for: OCI or PL. On the other hand, under IFRS 9 is it permitted to classify and measure fixed debt instruments that meet the SPPI test under different measurement categories depending on the business model: amortised cost, FVOCI or FVTPL. However, asset swaps are required to be market-valued with changes impacting the PL (FVTPL) except in the case of the adoption of hedge accounting. One alternative that could be considered in the context of the PIR IFRS 9 would be a new approach for all these derivatives that are exclusively used to match the insurance liabilities expected cash flows: for example, to be measured at FVOCI if certain conditions are met. If the IASB believes that this approach does not have enough merits to be considered, then specific guidance on how to apply hedge accounting in the insurance businesses is needed. It is important to set a common understanding on how the current hedging requirements in IFRS 9 and IAS 39 can be applied to our insurance business.

We note that the current work of the IASB staff on the DRM project has focused on banks, and the timeline expected for this project does not fit the imminent deadlines that the insurance business is facing.

Questions to constituents – Question 3 (a)

37 In addition to the issue of the application of the SPPI test to financial instruments with ESG features and to the requirement to classify at FVTPL mutual funds and other puttable instruments (see our answer to Question 4 below) that have been identified in this DCL, are there other fact patterns for which you think the cash flow characteristics assessment is not leading to an appropriate measurement outcome? Please consider, in particular, financial assets that are required to be measured at FVTPL, for which a different measurement approach (amortised cost or FVOCI) would be in your view more appropriate. Please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk).

*ESBG answer:*

In general terms, the measurement requirements are working well in practice however, in addition to the issues referred by EFRAG above, we would like to highlight the following areas that are changes from IAS 39 to IFRS 9 and we have assessed that pose some challenges to banks incurring higher costs than expected which do not outweigh the benefits:

- Measuring any type of 'equity instruments' at FV. We find very complex to measure at FV certain equities which are not traded and based only on public information available to investors. For example, companies whose value of shareholder's equity is not equivalent to its liquidation value as a consequence of contractual agreements with shareholders or due to state regulations, such as in Mutual Guarantee Companies. In this case, a measurement model based on acquisition cost plus an impairment test if there is evidence of an incurred or expected loss would work much better and we believe the resulting information would be still useful for users, as when banks have to estimate the fair value of such holdings there is a high degree of judgement and usually this type of investments are not material for the financial position of banks.

| Questions to constituents – Financial instruments with ESG features |
|---|
| 38 When applying the SPPI test to financial instruments held to collect that have contractual cash flow variability linked to ESG targets specific to the borrower, what additional approach could be considered in order to avoid failures of the SPPI test? Approaches used currently include considering the 'de minimis' and the possible link to the credit spread. |
| 39 Do you think that failing the SPPI test (and a resulting measurement at fair value through profit or loss) is an appropriate outcome for these financial instruments? Please specify. |
| 40 What do you consider the economic nature of the ESG-linked variability to be? |

*ESBG answer:*

Regarding the possible approaches to avoid failures of the SPPI test, based on the feedback from ESBG members, current demonstrations are mainly based on the 'de minimis', although how the 'de minimis' test is performed may vary across companies. Although some companies may view the interest adjustment for ESBG features as compensating for credit risk, this link is difficult to demonstrate to auditors in particular for each of the loans that banks issue that incorporate ESG features.

Apart from the 'de minimis' and the compensation for credit risk, we believe current requirements in IFRS 9 may provide a basis to argument that if a company considers the ESG features as a price bonification which would lead to a higher and/or lower profit margin of the operation, then the loan should be seen as any basic lending agreement and should pass the test SPPI. The economic nature of the ESG linked variability in this case is a component of the profit margin obtained by the bank: if the client improves its ESG rating the bank will earn a lower profit margin, but this margin would still be in the range of its pricing, as any other plain-vainilla loan.

Accordingly, as mentioned in the cover letter, ESBG notes there is a need for urgent guidance in the context of the increasing relevance of sustainability in the members' strategies for the new financial instruments that we issue with ESG features, in particular for loans that incorporate some type of consideration or adjustment in the price of the loan that is linked to ESG features.

In our view, measuring these financial instruments at amortised cost – e.g. when it is reasonable to assume that providing the ESG features bonification to clients is a trade-off with the overall margin of the loan – leads to useful information for users of financial statements. Accordingly, the IASB should undertake a separate project from the PIR IFRS 9 with the objective to enhance current application guidance in IFRS 9 for these instruments and any other alike.

Moreover, we consider that amortised cost is much more appropriate measurement compared to the fair value through profit or loss alternative.

The fair value through profit or loss measurement (which would result if these features were considered not to be SPPI) would lead to unsubstantiated profit or loss volatility resulting from:

- changes in benchmark interest yield curves (a reasonably possible interest change of 1.00% for an instrument with a duration of 5 years would lead to a P/L hit of close to 5% of the outstanding amount); and

- market-based measurement of credit and other spreads. For products like loans these often cannot be derived from observable inputs. Own estimates and their adjustments to market-based data bring subjective elements in the volatile valuation. This is incomparable to the P/L volatility resulting from the expected credit losses inherent in the amortised cost measurement for which sophisticated measurement models were developed during IFRS 9 implementation and they are subject to robust disclosures..

We acknowledge that the fair value through profit or loss measurement would capture the fair value volatility resulting from ESG-linked features which might be viewed as appropriate. But the extent of the ESG-linked cash flow adjustments and their impact on the measurement is much smaller than the inappropriate volatility resulting from the above-mentioned valuation components.

As a result, we conclude that the fair value through profit or loss measurement method is not appropriate for financial assets with ESG-linked features which are held to collect contractual cash flows (or held in the 'hold to collect and sell' business model). The profit or loss volatility which market-based valuation inputs bring is not relevant for this kind of business model. Another argument is that these instruments are generally viewed as basic lending agreements by lenders.

The variable ESG-linked interest cash flows would be captured by the amortised cost measurement either as catch-up adjustments (IFRS 9.B5.4.6) or, if the ESG-linked adjustments could be viewed as being part of movements in the market rate of interest, as a floating rate element (IFRS 9.B5.4.5). This distinction is addressed in a separate question of the PIR and, in our view, it does not affect the conclusion on the appropriate measurement.

To pass the SPPI assessment the ESG-linked features must be viewed as being part of basic lending risks. Paragraphs 4.1.3(b) and B4.1.7A of IFRS 9 SPPI discuss components of basic lending agreements. The ESG-linked features can possibly be viewed as being related to (i) credit risk or (ii) profit margin components.

Regarding (i) some members have developed internal procedures for considering ESG behaviour and risks of its customers in credit decisions as also required by recent regulatory guidance[1]. This can also influence loan pricing which reacts to potential ESG rating improvements (by ESG rating agencies) or fulfilment of ESG-linked KPIs.

However, in most cases a direct quantification of what is the effect of fulfilling ESG targets on the actual credit risk change is not straightforward. In this regard we note that paragraph BC4.182(b) of IFRS 9 does not require an exact calculation of what the credit risk component or its changes would be.[2] As a result, it may be sufficient if entities could prove positive correlation between the target fulfilment and the credit risk improvement and that the positive margin adjustment does not clearly overstate this improvement.

As to (ii) viewing the ESG-linked interest adjustment as part of the profit margin would be in line internal performance measurement of these instruments. ESG-linked risks are not

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[1] EBA Report on management and supervision of ESG risks for credit institutions and investment firms issued in June 2021 as well as EBA Guidelines on loan origination and monitoring issued in May 2020

ECB Guide on climate-related and environmental risks issued in November 2020

[2] The IASB also noted that the assessment of interest focuses on *what* the entity is being compensated for (ie whether the entity is receiving consideration for basic lending risks, costs and a profit margin or is being compensated for something else), instead of *how much* the entity receives for a particular element.

managed as part of the interest rate risk in the banking book by ALM at some of our banks. Any ESG-linked changes in the interest affect the profit of the business unit entering in the transaction.

Currently some members do not perform the SPPI assessment for ESG-linked features it they are below the de-minimis threshold defined by the bank (IFRS 9.B4.1.18). So far, all the interest adjustments in their business have been within this threshold. But ESG-linked instruments are expected to increase in volume. Also, the extent of the adjustments is likely to exceed the threshold. As a result, we do not consider the de-minims relief will work from longer-run perspective.

The most viable solution for meeting the SPPI could be to acknowledge that ESG-linked interest adjustments are a new phenomenon in the world focused on sustainability. There is an important public good aspect in these features. Lenders of funds which support sustainable behaviour in the economy should not be penalised by volatile fair value through profit or loss measurement of such assets. As a result, we consider that the IASB should think about introducing the ESG-linked interest adjustments as a separate basic lending arrangements component. At the same time, qualitative boundaries should be set. Outside such boundaries a simple qualitative assessment of the features would no longer be viewed as sufficient for a positive SPPI assessment.

| Question to constituents – Question 3 (b) |
|---|
| 48 In addition to financial assets which are in the scope of the contractually linked or non-recourse guidance identified in this DCL, are there other fact patterns to which you think the cash flow characteristics assessment cannot be applied consistently? |

*ESBG answer:*

We would like to highlight one fact pattern which we believe depicts one area where IFRS 9 is not clear enough and from the point of view of banks may encompass challenges on whether we should consider the cash flow characteristics of the underlying assets or stay at the level of the notes.

IFRS do not include guidelines defining when a financial asset should be classified as a loan or as a debt instrument. From the purchaser's perspective, there is uncertainty on how to classify the notes when banks buy notes/bonds associated with certain emissions made through an SPV (Special Purpose Vehicle) within the framework of a supply-chain financing program of a corporate which are backed by the suppliers' collection rights against the debtors.

The operation would be as follows: The SPV acquires from the suppliers the collection rights against the debtors and, subsequently, issues debt to finance those collection rights. The debtors pay the SPV the amount owed to their suppliers and the SPV settles the debt issued as a bond. Therefore, the only difference with respect to traditional reverse factoring, which is recognised currently under IFRS 9 as a loan, is that banks do not acquire directly the suppliers' collection rights, but acquire the notes issued by an SPV, the underlying of which are the suppliers' collection rights.

The following are characteristics of these notes:

- The bonds' credit risk encompasses the credit risk of the debtor of the invoice (this does not change due to the fact of adding an SPV to the operation)
- From a legal perspective, these bonds are considered as a debt instrument and, thus, are identified by an ISIN code
- These bonds are not listed on any regulated market and are traded in a flat secondary market

- They are financial assets that, due to their characteristics, would pass the SPPI test; therefore, we could classify them at amortised cost or at FV-OCI (according to the business model)

Based on above, and given that there is divergence in practice, it would be interesting to clarify whether in such cases the decision on their recognition should be made considering the legal form of the financial asset being acquired or the characteristics thereof, regardless of its legal form as such classification may have other accounting and reporting consequences.

| Question to constituents – Question 3 (c) |
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| In addition to the unexpected costs of applying the SPPI test to instruments with administrative rates identified in this DCL, are there other fact patterns that show unexpected effects arising from the cash flow characteristics assessment? |

*ESBG answer:*

We do agree that this issue should be addressed. Some of our members use administrative rates they do not face SPPI test issues and are able to reach a positive SPPI conclusion without difficulties.

| Questions to constituents – Questions 4 (a) and (b) |
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| FVOCI option for equity instruments |
| 68 For which equity instruments has the option to present fair value changes in the OCI been applied? What are the reasons for choosing to use the option for those instruments? What is their proportion of the overall investment portfolio? |
| 69 From a user perspective, do you think the absence of recycling of gains or losses of equity instruments designated at FVOCI provides useful information? Please explain. |
| Treatment of equity-type financial instruments |
| 70 Please consider paragraphs 65/67 above. If you consider that equity-type financial instruments should be accounted for similarly to equity instruments, how would you define ‘equity-type’? What type of underlying investments should be considered? How a classification test could be structured, taking into consideration among other things the need to assess the characteristics of the underlying assets? |
| 71 From a user perspective, do you think that expanding the possibility to use FVOCI for equity-type financial assets provides more useful information? Please explain. |

*ESBG answer:*

Based on the feedback of one bank, this bank applies the irrevocable FV-OCI option to all equities it holds, regardless of whether they are considered strategic, are part of its core business or are immaterial. However, most of these equities are hold with a long-term horizon. Therefore, the proportion is 100% of total equities. The reason supporting this decision is that management wants to avoid any volatility in PL, even if for certain of these equities their fair values are expected to increase and improve over time or are certainly stable.

From the point of view of a user, we believe the absence of recycling of gains or losses of equity instruments designated at FVOCI does not provide useful information in certain cases. These would be cases for which recycling would be a better accounting alternative:

- When entities are facing an accounting mismatch regarding two different streams of cash flows (for example, one stream is recognized in OCI and the other in PL), we believe such type of mismatch should be addressed. This would be the typical case of insurance business for certain contracts measured under IFRS 17. In this case, allowing recycling for equities could avoid an accounting mismatch. Accordingly, one approach could be to allow recycling if with this option a mismatch is addressed.

- Another example could be when entities fund certain liabilities (usually long-term liabilities) with certain investments and the portfolio of investments include equities. When the entities sell the equities to fund the payment of the liability it would make sense to have in one only statement (in this case PL) the effects of the transaction.

Based on the current experience under IFRS 9 and the outcome of the dry-runs that are currently being carried out for the insurance business, the IASB should assess whether recycling for equities measured at fair value through other comprehensive income should be revisited. In our view the IASB should ensure that (i) profit and loss portrays faithfully the financial performance for all long-term investors and (ii) the current classification and measurement requirements in IFRS 9 do not give rise to accounting mismatches in the financial statements, in particular when IFRS 17 entries into force. Allowing recycling of realised gains or losses to profit or loss would be better aligned with portraying the performance of long-term equity investments for FV-OCI users while mitigating accounting mismatches that arise under certain business models such as insurance.

| Question to constituents |
|---|
| 95 Do you think that standard-setting activities from the IASB are required to deal with modifications of the cash flow characteristics? Please explain |

*ESBG answer:*

We do not believe the IASB should initiate any action regarding these current requirements in IFRS 9.

| Question to constituents |
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| Amortised cost and the effective interest method |
| 109 How significant are these catch-up adjustments in accordance with paragraph B5.4.5 or B5.4.6 of IFRS 9 (please provide nominal amounts and expressed as a percentage compared to the interest revenue and expense calculated using the EIR – as disclosed per IFRS 7, 20(b))? Please provide information for the following reporting periods: 2018, 2019 and 2020. |

*ESBG answer:*

We concur with EFRAG that the amortised cost and the effective interest rate method generally provides useful information for most the financial instruments held by banks and financial conglomerates. However, we agree with the fact that there are certain types of instruments for which estimating the Effective Interest Rate (EIR) initially and subsequently may poses challenges to companies. Please consider as examples the following:

- TLTRO operations

- Loans or bonds with part of their remuneration being contingent interest (e.g. linked to inflation)
- Circumstances in which the estimation of a joint EIR between two separate financial instruments leads to a different pattern or income recognition that provides more useful information compared to single EIR.

The approaches used by ESBG members may differ to estimate the EIR in the above examples, including companies that carry out such catch up adjustments and others that do not consider them.

| Questions to constituents |
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| Other matters |
| 130 Would you have other fact patterns about factoring of trade receivables that in your view should be considered and/or have you experienced challenges in other aspects of both accounting and disclosing information on trade receivables factoring? Please explain. |
| 131 Do you agree that additional illustrative examples specifically on trade receivables factoring would be helpful in ensuring consistent application of IFRS 9 derecognition principles? |

*ESBG answer:*

We do not have specific comments

| Questions to constituents |
| --- |
| Derecognition |
| 142 How would additional guidance on (i) the principal agent area and (ii) derecognition benefit you in accounting for reverse factoring transactions? Please explain. |
| 143 As users of financial statements, do you currently lack information on reverse factoring transactions? If yes, which information is missing? In your view does the bank act as an agent in these situations or as a debtor? Please explain. |

*ESBG answer:*

We do not have specific comments

| Question to constituents |
| --- |
| Financial guarantees |
| 146 Do you think that the IASB should provide educational guidance or make amendments to the standard-for financial guarantees? Why or why not? |

*ESBG answer:*

IFRS 4 included an option that permitted an issuer of a financial guarantee contract to account for it as if it were an insurance contract, if the issuer had previously asserted that it regards the contract as an insurance contract. This option was intended as a temporary solution, pending the publication of IFRS 17. In the final standard, this option has remained,

which was an approach both supported by banks and pure insurers companies. In ESBG view, the accounting choice for financial guarantee contracts is clear and no implementation problems appear to have been identified in practice. We note that financial conglomerates support this dual approach based on maintaining the current status quo of the financial guarantees provided in connection with the banking business (e.g. letters of credit), and the issuance of credit insurance in the insurance business to which IFRS 9 and IFRS 17 will be applied respectively and have not created any tension or consistency in the past. We believe no action should be taken in this topic.

# APPENDIX 2: IASB questions to constituents

Question 2 – Business model for managing financial assets

| Question 2 – Business model for managing financial assets<br>(a) Is the business model assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.<br>(b) Can the business model assessment be applied consistently? Why or why not? Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.<br>(c) Are there any unexpected effects arising from the business model assessment? How significant are those effects? Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators. In responding to (a)–(c), please include information about reclassification of financial assets (see Spotlight 2). |
|---|

ESBG answer:

We consider that the business model defined in IFRS 9 provides relevant information to users of financial statements on the purpose of holding financial instruments and believe that in the banking industry is consistently applied.

The only situation which lead to several discussions on how to apply the business model requirements was under the COVID, in particular on how to understand the requirements for permitted sales under the 'held to collect' business model. We believe in this area more guidance could be provided but this should not be high priority topic for the IASB.

Question 5 – Financial liabilities and own credit

| Question 5 – Financial liabilities and own credit<br>(a) Are the requirements in IFRS 9 for presenting the effects of own credit in other comprehensive income working as the Board intended? Why or why not? Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities.<br>(b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)? Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review. |
|---|

ESBG answer:

We welcome the change introduced in IFRS 9 allowing preparers to present the effects of own credit risk in OCI

Question 8 – Transition

| Question 8 – Transition (a) Did the transition requirements work as the Board intended? Why or why not? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements. (b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not? Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome? |
| --- |

ESBG answer:

We welcome the recent amendments made to IFRS 17 introducing an overlay approach for the combined transition to IFRS 9 and IFRS 17

**About ESBG (European Savings and Retail Banking Group)**

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to inno-vate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.

European Savings and Retail Banking Group – aisbl

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