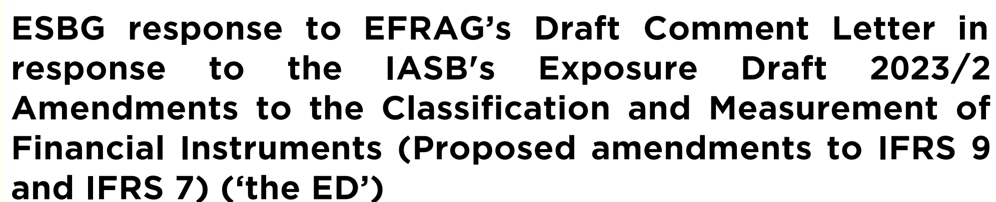
POSITION PAPER



ESBG response to EFRAG's Draft Comment Letter in response to the IASB's Exposure Draft 2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7) ('the ED')

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

JUNE 2023

ESBG

General comments

We welcome this ED which provide improvements to IFRS 9 and will clarify that some ESG-indexed loans are eligible to amortised cost.

Besides, the treatment of ESG-indexed loans should be handled by the IASB as a priority topic.

IASB Question 1 - Derecognition of a financial liability settled through electronic transfer

Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity.

Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

EFRAG's conclusions

EFRAG acknowledges that this topic could raise conceptual questions on the recognition and derecognition requirements for financial assets and liabilities in IFRS 9. However, the responses to the PIR did not show this as a concern.

In EFRAG's view, a fundamental change to the current derecognition requirements is not warranted and the proposed accounting alternative will be sufficiently narrow in scope, limit unintended consequences, and provide useful information.

Therefore, EFRAG considers that the narrow-scope standard-setting approach, proposed in the ED, although not solving all concerns, would provide a timely and workable solution and reduce costs for the entities concerned.

EFRAG however suggests amending paragraph B3.1.6 to include how the settlement date accounting applies to a financial liability and to add the disclosures about cash recognition and derecognition policies used by the entity.

For avoidance of doubt, EFRAG suggests the IASB to clarify in the application guidance that the other side of the accounting entry when applying the proposed solution should be cash and not any other type of financial liability.

EFRAG's Questions to Constituents

Do you agree with limiting the scope of the proposed accounting alternative to electronic payment transfers when specified criteria are met? If not, do you consider that the IASB should broaden the scope of the amendments to include other types of disbursements (e.g., cheques and credit cards)?

Do you consider that the asset side of such transactions should also be addressed by the IASB as part of these amendments?

Do you agree with the proposed criteria for derecognising a financial liability before the settlement date?

In our opinion, recognition and derecognition requirements in IFRS 9 work as intended, however we agree with the IASB approach to introduce an option for accounting for derecognition of financial liabilities settled using electronic payment system, before settlement date, only when specified criteria are met, and in particular if from that moment entities no longer have the ability to access that cash.

It is important to highlight that this approach is an option for preparers, and this will allow entities to assess whether the cost/benefit balance of applying this modification is reasonable.

We are of the opinion that the three criteria identified in paragraph B3.3.8. seems robust and understandable for preparers and if the three of them are met it could be stated that payment will be almost certain. We also think that these considerations should be extended to other payment systems that comply with that requirements, not only electronic payment systems but also for example to credit cards.

We appreciate also clarifications included in paragraph B3.3.9. of the ED regarding characteristics of the electronic payments system to qualify the settlement risk as insignificant.

It would be also useful to consider also the asset side of these transactions. Same criteria described in paragraph B3.3.8 could be applied for asset derecognition, and it would made sense that derecognition of both financial asset and liability is at the same time. It would be relevant for example in intra-group transactions, where differences between derecognition criteria for assets and liabilities could lead to consolidation adjustment and operational challenges.

Finally, as paragraph B3.1.6 of IFRS 9 describes only how to apply settlement date accounting to financial assets, we agree with EFRAG's proposal to amend this paragraph of IFRS 9 to specify how the settlement date accounting should be applied to a financial liability.

IASB Question 2 – Classification of financial assets – contractual terms that are consistent with a basic lending arrangement

Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:

- interest for the purposes of applying paragraph B4.1.7A; and
- contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.

The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

EFRAG's remarks

EFRAG welcomes the IASB's decision to address the issue of classification and measurement of financial assets with ESG-linked features raised by respondents (including EFRAG) during the PIR.

EFRAG reminds that the solution is expeditiously needed given the constantly growing investments in financial instruments with ESG-linked features and welcomes the IASB efforts in this respect. However, EFRAG encourages the IASB to prioritise the publication of the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments, allowing entities to apply them as early as possible.

EFRAG supports the generic approach chosen by the IASB not to provide a specific exception from the requirements on contractual cash flow characteristics in IFRS 9 for financial assets with ESG-linked features. EFRAG considers that such an approach is principle based and would provide more flexibility in the future if new instruments with similar types of features will be developed.

EFRAG notes that European constituents from the banking sector (both preparers and users) considered that amortised cost would be the most appropriate measurement for financial assets with ESG-linked features and would provide useful information for the users of financial statements compared to fair value measurement.

EFRAG considers that the clarifying amendments proposed in the ED would provide a good basis for evaluating whether contractual cash flows of financial assets with ESG-linked or similar features meet SPPI requirements. However, as a

general observation, EFRAG suggests that the IASB include certain considerations and explanations noted in the Basis for Conclusions in the core text of the ED to avoid future misinterpretation of the Standard. Examples are the contents of paragraphs BC67, BC69, and BC72.

EFRAG's questions to constituents:

Can you apply the clarifications provided in the ED to your financial assets with ESG-linked or similar features? Do you have any difficulties? If yes, please elaborate.

Does application of these clarifications result in your financial assets with ESG-linked or similar features meeting SPPI requirements? If not, please explain which instruments fail and why.

In your opinion, do the proposed clarifications have an impact on the classifications of other financial assets? If yes, which ones and why?

We appreciate that EFRAG stresses urgency of bringing the solution for SPPI compliance for ESG features. In the DCL EFRAG encourages the IASB to prioritise the publication of the proposed clarifications on the general SPPI requirements before the other amendments, allowing entities to apply them as early as possible. This is mentioned not only in the answer to question 2 but also to questions 3 and 4. This is in line with the message the ESBG has recently conveyed to the IASB and EFRAG and we can confirm that its relevance persists. Some of our members face a high risk that, without the solution, loans with ESG features exceeding the de-minimis threshold are interpreted by auditors as non-SPPI compliant and would need to measure them at fair value.

We welcome the clarification provided by the IASB in B4.1.10A in relation to the issues faced in practice when applying SPPI assessment for financial assets with ESG-linked cash flow variability. In this regard, we also consider as helpful adding the examples for Instrument EA and Instrument I for clarifying on how the requirements relate to ESG features.

However, we consider that wording in paragraph B4.1.8A should be improved in respect of incorporating the "profit margin" notion in and removing the reference to „magnitude".

As explained in AP16A§10 (Sept 2022), paragraph B4.1.8A clarifies that amortised cost as a measurement basis only provides useful information about the amount, timing and uncertainty of future cash flows if the 'what' is consideration for basic lending risks, costs and **a profit margin**. The profit margin element should therefore be included in paragraph B4.1.8A.

Moreover, the requirement that a change in contractual cash flows is inconsistent with a basic lending arrangement if it is not aligned with the **magnitude** of the change in basic lending risk or costs seems inconsistent both with :

- the second sentence of B4.1.8A which clarifies that the assessment of interest focuses on *what* the entity is being compensated for instead of *how much* the entity receives for a particular element.
- BC47c which explains that an entity is not necessarily required to carry out a quantitative analysis of the different elements of interest to determine whether the contractual cash flows are consistent with a basic lending arrangement;

In order to avoid unnecessarily quantitative demonstration regarding the magnitude of the change in basic risk, cost or margin profit in relation with the change in contractual cash flows, the Board intention would be better reflected by simply requiring that the change in contractual cash flows is **not disproportionate**. This is consistent with BC52 of the ED stating that *the IASB therefore decided to clarify that, for contractual cash flows to be consistent with a basic lending arrangement, a change in contractual cash flows has to be directionally consistent with, as well as proportionate to, a change in lending risks or costs*. For instance, a contingent feature that may double or fully cancel the amount of interest seems disproportionate and it is not likely that such feature would be consistent with a basic lending arrangement.

We therefore propose the following amendments to par. B4.1.8A :
B4.1.8A In assessing whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement, an entity may have to consider the different elements of interest separately. The assessment of interest focuses on *what* an entity is being compensated for, rather than *how much* compensation an entity receives. Contractual cash flows are inconsistent with a basic lending arrangement if they include compensation for risks or market factors that are not typically considered to be basic lending risks,~~or~~ costs (for example, a share of the debtor's revenue or profit) or profit margin, even if such contractual terms are common in the market in which the entity operates. Furthermore, a change in contractual cash flows is inconsistent with a basic lending arrangement if it is not aligned with the direction ~~and magnitude~~ of the change in basic lending risks,~~or~~ costs or profit margin or appears to be disproportionate.

While we welcome the proposal outlined in paragraph B4.1.10A, we believe that certain unintended consequences of this should be addressed by the IASB. The clarification that for a change in contractual cash flows to be consistent with a basic lending arrangement, the occurrence (or non-occurrence) of the contingent event must be specific to the debtor is useful, especially for ESG-linked loans. However, some loans may include contingent event related to the creditor. For instance, some loans may include an increased cost clause (e.g. additional costs directly linked to the loan following to change in law or regulation).

IASB Question 3 – Classification of financial assets – financial assets with non-recourse features

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term 'non-recourse'.

Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.

Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

EFRAG's remarks

EFRAG welcomes the IASB's effort to respond to the feedback from the PIR participants and to clarify the meaning of "non-recourse" financial asset.

In its Comment Letter to the PIR, EFRAG acknowledged that diversity in practice was observed relating to the application of the non-recourse guidance and its interaction with the contractually linked instruments and suggested the IASB to provide additional guidance to address the related issues.

EFRAG agrees with the IASB's conclusion that typically "non-recourse" refers to the missing personal liability of a debtor beyond any underlying asset(s) pledged as collateral.

EFRAG notes that in case of "normal" collateralised debt the creditor has a claim on the debtor and in addition, the protection of the underlying asset(s) only to the extent that the borrower is unable to make the contractual payments through other means.

EFRAG agrees with the IASB's considerations that, in most cases, a non-recourse financial asset differs from a "normal" collateralised debt because:

- contractual payments over the life of the instrument are restricted to the cash flows generated by the underlying asset(s); and
- the creditor's ultimate claim is limited to the value of the underlying asset(s).

A typical example of this non-recourse financial asset are contractually linked instruments.

EFRAG welcomes the IASB's decision to consider "non-recourse" a feature of certain financial assets, rather than a separate category of financial assets. This definition helps, in particular to clarify the description of transactions containing

multiple contractually linked instruments. Furthermore, EFRAG welcomes the fact that the IASB considers “non-recourse features” as an explicit contractual term of the financial asset.

However, EFRAG notes that the IASB is introducing a new concept into the Standard (the wording “non-recourse features” is not present in the current version of IFRS 9) and that the definition of financial assets with non-recourse features provided in B4.1.16A of the ED is more restrictive than the general meaning assigned to “non-recourse” by current practice.

For example, EFRAG notes that current practice considers residential mortgage loans with fixed interest rate, downpayments that trigger default if not fulfilled, and the option for the borrower to exchange the residual loan obligation for a specified asset(s) – either during the life of the loan or in event of default – as a “non-recourse” financial asset.

Paragraph B4.1.16 of IFRS 9 refers to a “non-recourse” financial asset as a case when a creditor’s claim is limited to specified assets of the debtor (e.g., in the case of default) or the cash flows from specified assets (e.g., over the life of the financial asset). Instead, paragraph B4.1.16A of the ED states that a financial asset with nonrecourse features has limited cash flows both over the life of the financial asset and in the case of default.

EFRAG supports the IASB’s decision to provide examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features. 118 EFRAG agrees with the fact that the borrower’s legal and capital structure, loan-to-value ratio and the presence of subordinated amounts are relevant and discriminatory factors in determining whether the contractual cash flows are SPPI.

Nevertheless, EFRAG questions the reference to “equity instruments” in paragraph B4.1.17A (b) of the ED. EFRAG notes that equity instruments do not create a shortfall and thus do not have the ability to absorb any shortfall in cash flows generated by the underlying assets. Therefore, EFRAG suggests the IASB to delete this reference.

As a last point, EFRAG notes that the proposed clarifications on the general SPPI requirements have a high priority for European stakeholders due to the rapid increase in financial assets with features linked to ESG concerns. EFRAG agrees with the IASB’s consideration that clarifying both non-recourse and CLIs requirements at the same time as the general SPPI requirements would maximise the benefits of the proposed amendments. However, EFRAG encourages the IASB to prioritise the publication of the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments.

EFRAG’s Questions to Constituents

Do you consider the updated application guidance for financial assets with non-recourse features clear and easy to apply? If not, please explain.

In your opinion, do the proposed clarifications have an impact on the current classifications of your existing financial assets? If yes, which ones and why?

We support clarification in paragraph B4.1.16A to help preparers to distinguish between an exposure to the specified asset's/pool of financial instruments' performance risk and exposure to the debtor's credit risk. That would help to assess the SPPI test to non-recourse financial assets.

We believe the IASB has responded to concerns raised during the PIR, including more clarity on the "look through" approach required in paragraph B4.1.17 for non-recourse financial assets and in particular for contractually linked instruments.

IASB Question 4 – Classification of financial assets – contractually linked instruments

The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21 – B4.1.26 of IFRS 9.

The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

EFRAG's response

EFRAG welcomes the IASB's effort to respond to the feedback from the PIR participants and to clarify the requirements in paragraphs B4.1.20 – B4.1.26 of IFRS 9 for investments in contractually linked instruments.

As mentioned before, in its Comment Letter in response to the IASB's request for information as a part of the PIR, EFRAG acknowledged several issues related to the contractually linked instruments requirements and the interaction with the nonrecourse guidance and suggested the IASB to provide additional guidance to address these issues.

As a general comment and as already highlighted in EFRAG's response to Question 3, EFRAG notes that the proposed clarifications on general SPPI requirements have a high priority for European stakeholders due to the rapid increase in financial assets with features linked to ESG concerns. EFRAG agrees with the IASB's consideration that clarifying both non-recourse and CLIs requirements at the same time as the general SPPI requirements would maximise the benefits of the proposed amendments. However, EFRAG encourages the IASB to prioritise the publication of the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments.

EFRAG's questions to Constituents

Do you consider the updated application guidance for contractually linked instruments clear and easy to apply? If not, please explain.

In your opinion, do the proposed clarifications have an impact on the current classifications of your existing financial assets? If yes, which ones and why?

From our point of view, proposed modifications in paragraphs B4.1.20 and B4.1.20A provide adequate clarifications both on the definition of contractually linked instruments and on requirements for investments in these instruments with respect to the application of the SPPI requirements.

IASB Question 5 – Disclosures – investments in equity instruments designated at fair value through other comprehensive income

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:

- paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and
- paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.

Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

EFRAG's response

In its Comment Letter in response to the PIR, EFRAG considered that the IASB should expeditiously review the non-recycling treatment of equity instruments within IFRS 9, testing whether the IASB's Conceptual Framework would justify the

recycling of FVOCI gains and losses on such instruments when realised. EFRAG's Comment Letter mentioned that seventy percent (70%) of respondents from its public consultation considered that an alternative accounting treatment was relevant to meet the objective to reduce or prevent detrimental effects on long-term investments.

EFRAG, therefore, welcomes the IASB's efforts to review this topic. EFRAG will be monitoring the implementation of IFRS 9 and IFRS 17 Insurance Contracts to ascertain the extent of impact resulting from non-recycling of equity instruments measured at FVOCI.

Taking the above into consideration, EFRAG, at this stage, agrees with the proposed disclosures. This is because the disclosure requirements will help provide users with transparent and more comprehensive information about the performance of the relevant equity instruments since acquisition, albeit not being the ideal solution. EFRAG also considers that the disclosures will not result in significant costs as the entities would have access to this information.

Furthermore, EFRAG considers that the illustrative example proposed in the ED provides a useful way of applying the disclosure requirements. This is because the users can clearly identify, for example, the transfers to equity following disposal of the equity instruments designated at FVOCI, in order to make their assessments. Nevertheless, EFRAG notes that the transfer of any cumulative gain or loss relating to the disposal from other comprehensive income to retained earnings (as illustrated in paragraph IG11B of the ED) is not mandatory. EFRAG considers that without information on the cumulative gain /loss of instruments disposed of (both in the reporting period and in prior reporting periods) the proposed disclosure would not achieve the objective of better represent depicting the financial performance of equity investments.

In addition, EFRAG recommends the IASB to reconsider the use of non-controlling interest in paragraphs IG11A and IG11B as this might create confusion for interests creating significant influence. Therefore, EFRAG suggests that the IASB mention that the equity instruments are in scope of IFRS 9.

EFRAG's questions to constituents

Do you consider that these disclosure requirements will provide useful information? Please explain.

We consider that realised gains and losses from investments are better presented in profit and loss, whereas unrealized fair value movements are better presented in OCI until they are realized.

However, considering latest decisions of the IASB not to address the recycling issue for FVOCI instruments, we believe that at least with the proposed amendments, disclosures related to changes in fair value during the period and amounts recognized in OCI will help users of financial statements to evaluate the

performance of equity investments at FVOCI upon disposal and to disaggregate changes in fair value related to investments derecognized at the end of the reporting period and changes in FV related to investments held.

IASB Question 6 – Disclosures – contractual terms that could change the timing or amount of contractual cash flows

Paragraph 20B of the draft amendments proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C).

Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

EFRAG's response

EFRAG welcomes the disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event.
EFRAG considers that the disclosure requirements would not provide relevant information for credit-impaired financial assets and should be applied to non-credit impaired financial assets. Moreover, EFRAG considers that the measurement at fair value already captures the effects of changes in timing and amount of financial instrument's contractual cash flows. Therefore, EFRAG notes that the quantitative disclosure requirements for financial assets measured at FVOCI adds less relevant value.

Accordingly, EFRAG considers that information on the description of the nature of the contingent event will provide useful information because this would indicate to users the possibility of changes to the contractual cash flows of the financial instruments.

EFRAG also considers that the quantitative disclosure about the range of changes would help users of financial statements to assess the potential changes to the amounts and uncertainty of future cash flows. The ED does not specify what type of a range to use, except that a sensitivity analysis is not required nor a quantification of the likely effect these contingent events could have on an entity's financial statements. EFRAG considers that not specifying the range type would enable entities to provide a range that it considers relevant taking into consideration the contractual terms and also balancing the costs to provide that information.

The quantitative disclosure on the gross carrying amount of financial assets and the amortised cost of financial liabilities would be useful for users to understand the prevalence of these financial instruments and the entity's exposure to the contingent events.

EFRAG notes that IFRS 9 requires an entity to classify a financial asset or a financial liability only at inception of the contract based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. This includes an entity making an assessment of the contractual terms that change the timing or amount of contractual cash flows (paragraph B4.1.10 of IFRS 9).

Since the above assessment is only required to be performed at inception of the contract, the proposed disclosure requirements may result in entities having to update their IT systems to collect the necessary information for the disclosures and also to track the information for classes of financial assets or financial liabilities. As a result, given the large volumes and diversity of financial instruments, EFRAG considers that the proposed disclosure requirements could have significant operational challenges, and therefore, implementation costs both for holders and issuers.

In addition, EFRAG notes that the IASB added to its pipeline a project that will review matters relating to the requirements in IFRS 9 for amortised cost measurement. Therefore, EFRAG suggests that the IASB considers the requirements on quantitative disclosures in the context of this project and with a more holistic approach.

Furthermore, EFRAG considers that clarity or guidance is needed on what a contingent event specific to the debtor is. Otherwise, entities may have practical challenges regarding which classes of financial assets or financial liabilities to include in the disclosures. EFRAG also considers that more clarity or guidance is needed on how to determine the quantitative disclosures requirement (e.g., whether or not de minims clauses should be considered, which calculation method could be used, and when different probability scenarios are needed).

Taking the above concerns into consideration, on balance, EFRAG agrees with the proposed disclosures as they will help users of financial statements understand the effect of changes in contractual terms to the timing and amount of contractual cash flows resulting from a contingent event and they would also enable entities to manage these risks relating to changes in timing and amount of the contractual cash flows.

Notwithstanding our response above, EFRAG points out a potential overlap of the proposed disclosures with the October 2022 Amendments to IAS 1 Non-current Liabilities with Covenants, whereby an entity classifying liabilities arising from loan arrangements as non-current would need to disclose information about the

covenants (including the nature of the covenants) and the carrying amount of related liabilities.

In addition, EFRAG points to other potential overlaps with the IASB's Financial Instruments with Characteristics of Equity project and with the disclosure requirements for liquidity risk in IFRS 7.

EFRAG's Questions to Constituents

Do preparers consider that they will be able to provide these disclosure requirements at a reasonable cost? Please explain.

Do users consider that these disclosure requirements will provide useful information? Please explain.

We are concerned by the potential scope of the disclosures on contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event.

We note that the proposed disclosures would relate not only to financial assets with ESG features. Cash flow variability conditional upon event specific to the debtor also relates to features such as margin ratches whereby the margin is adjusted by reference to certain financial ratios of the debtor. Other examples may be cross-selling clauses, penalty interest. Such margin adjustments are considered to be SPPI based on the existing requirements. Over six years of IFRS 9 application users have not expressed the need for having additional disclosures for such features. We consider that once features are SPPI they relate to simple basic lending and there is sufficient accounting mechanism in IFRS 9 for capturing their variability. Systems for identifying these features in respect of carrying amounts and tracking the range of potential changes have not been developed by financial institutions during IFRS 9 implementation and afterwards. Banks have set up IFRS 9 classification processes with focus on high quality and these are regularly reviewed so they can reflect changes in the market. Collection of quantitative data is not part of these processes and would involve high implementation but also ongoing costs. It would not add up to the quality of the assessment process. As a result, we consider that the costs for producing these disclosures are not reasonable considering limited value of the information.

If, however, the IASB decides to keep these disclosures we suggest that paragraph 20B is limited to contingent events non-specific to the debtor other than those related to the time value. For example, prepayment features are specific to the debtor and would be excluded from these disclosures.

IASB Question 7 – Transition

Paragraphs 7.2.47 – 7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose

information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105 – BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

EFRAG's response

EFRAG agrees with the proposed requirements for transition set out in paragraphs 7.2.47 – 7.2.49 of the ED. EFRAG generally supports retrospective application of new, or amendments to existing, Standards and Interpretations.

EFRAG considers that the retrospective approach proposed by the IASB in paragraphs 7.2.47 and 7.2.48 of the ED is consistent with the transition requirements for the initial application of IFRS 9. Furthermore, EFRAG considers that this approach will not result in significant costs as entities would have access to transition information and would not be required to restate prior periods.

EFRAG also agrees with the transition disclosure requirements in paragraph 7.2.49 of the ED.

EFRAG considers that information regarding the measurement of reclassified financial assets, immediately before and after the application of the amendments, will provide useful information because it would highlight the effects of applying the amendments on an entity's financial statement.

As mentioned above, EFRAG encourages the IASB to prioritise the publication for the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments, allowing entities to apply them as early as possible. In such a case, EFRAG suggests to the IASB to consider individual transition requirements to allow for a separate early adoption.

Finally, EFRAG agrees with the requirements proposed in paragraph 44JJ of the ED regarding the effective date and transition into IFRS 7.

We agree with these proposals.

About ESBG (European Savings and Retail Banking Group)

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 17 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 871 banks, which together employ 610,000 people driven to innovate at 41,000 outlets. ESBG members have total assets of €6.38 trillion, provide €3.6 trillion loans to non-banks, and serve 163 million Europeans seeking retail banking services.

Our transparency ID is 8765978796-80.

European Savings and Retail Banking Group – aisbl
Rue Marie-Thérèse, 11 ▪ B-1000 Brussels ▪ Tel: +32 2 211 11 11 ▪ Fax : +32 2 211 11 99
Info@wsbi-esbg.org ▪ www.wsbi-esbg.org

Published by ESBG. JULY 2023