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Mr. Wolf Klinz  
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Submitted via website

Brussels, 30 June 2023

**Subject: Exposure Draft: Amendments to the Classification and Measurement of Financial Instruments**

Dear Mr. Barckow,

Dear Mr. Klinz,

We are pleased to respond to the International Accounting Standards Board (IASB or the Board) Exposure Draft: Amendments to the Classification and Measurement of Financial Instruments (ED) as well as the EFRAG Draft Comment Letter (DCL) thereon.

**ACCOUNTING FOR THE SETTLEMENT OF A FINANCIAL LIABILITY USING AN ELECTRONIC PAYMENT SYSTEM**

We generally agree with the direction taken by the IASB. We would however welcome further clarification on the scope and the newly introduced terms, as explained in the detailed response below.

## **CLASSIFICATION OF FINANCIAL ASSETS WITH FEATURES LINKED TO ESG**

Accountancy Europe supports issuing a narrow scope amendment to respond to challenges related to financial instruments with ESG linked features. We also support issuing these amendments as soon as possible. In our view this topic is much more urgent than the other ones addressed in this exposure draft.

We generally agree with the direction taken by the Board.

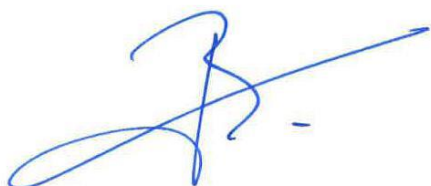
To clarify the accounting treatment to be retained during the transition period, we encourage the Board to make explicit in the basis for conclusion whether the guidance added for ESG-linked features is an acceptable application of IFRS 9 principles before amendments.

We also believe some clarifications are needed on a selection of new concepts introduced by the ED (concept of magnitude, investment in an entity...). We suggest possible ways forward in our detailed response.

We kindly refer to Annex 1 and Annex 2 of this letter for our detailed responses.

Please do not hesitate to contact Nael Braham ([nael@accountancyeurope.eu](mailto:nael@accountancyeurope.eu)) in case of any questions or remarks.

Sincerely,



Olivier Boutellis-Taft  
Chief Executive Officer

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## ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

### ACCOUNTING FOR THE SETTLEMENT OF A FINANCIAL LIABILITY USING AN ELECTRONIC PAYMENT SYSTEM.

#### 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?*

- (1) We generally concur with the Board's approach to only develop requirements permitting derecognition of financial liabilities before the settlement date rather than clarifying the aspects of the derecognition requirements in IFRS 9. The latter represents a wider scope and might trigger fundamental changes and unintended consequences that are beyond a narrow scope amendment.
- (2) However, we think that the proposals in the ED would benefit from clarification on the topics mentioned below.
- (3) We draw the Board's attention to the fact that "*electronic payment systems*" are not defined within IFRS. In this respect, it is unclear which payment means are part of the scope of the amendment, for instance are credit cards (that can be virtual) electronic payment systems or not. We therefore encourage the Board to further clarify the scope of the proposed exception.
- (4) One possible solution could be to extend the scope of this amendment to i) any cash payment ii) that meet the required conditions. We understand the concerns raised by the Board in BC36 of the ED, but we consider that it is more important to be consistent between two means of cash payments that both meet the conditions of this amendment (but one being "electronic" and the other not), than achieving consistency between cash payments and payments by the delivery of another asset. Indeed, in practice, payments by the delivery of another asset other than cash is much less frequent.
- (5) Furthermore, certain concepts used in the B3.3.9 might be subject to different interpretations. This is typically the case for the use of words such as "*standard administrative process*", or "*time between ... is short*".
- (6) In our view, it would make sense to clarify that the exemption to the core principles leads to a simultaneous derecognition of the liability and the cash used in the electronic payment. In other words, we recommend to the Board to make explicit that, when the liability is derecognised through an electronic settlement, the cash has also to be derecognised, assuming all the criteria for the exemption are met.

- (7) Based on recent experience, during crisis, what was initially considered insignificant risks shifted quickly to significant settlement risks. We therefore encourage the Board to clarify that assessing “insignificant settlement risk” should be an ongoing process.
- (8) Finally, in our view, the last sentence of paragraph B3.3.9 could be seen as contradicting criteria (b) in paragraph B3.3.8 leading to a kind of overlap between criterion b) and criterion c) as explained by B3.3.9. We therefore recommend to the Board to delete the last sentence of paragraph B3.3.9.

## CLASSIFICATION OF FINANCIAL ASSETS WITH FEATURES LINKED TO ESG.

### 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:

- (a) interest for the purposes of applying paragraph B4.1.7A; and*
- (b) 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 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?*

- (9) Accountancy Europe supports issuing a narrow scope amendment to respond to challenges related to financial instruments with ESG linked features. We also support issuing these amendments as soon as possible. In our view this topic is much more urgent than the other ones addressed in this exposure draft. We encourage the Board to address it separately in the remaining phase of the process if it helps expediting the finalisation of the final amendment.
- (10) The Board indicates in paragraph BC41 that existing “requirements in IFRS 9 (subject to clarification) provide an appropriate basis to determine whether such financial assets meet the condition to be measured at amortised cost or fair value through other comprehensive income”. Paragraph BC42 further indicates that “creating an exception” for these instruments “would not be appropriate”. Paragraph BC44 states that the Board decided to introduce “clarifying amendments” to “assist entities in determining whether financial assets [...] have contractual cash flow that are [SPPI] as required by paragraph 4.1.2 and 4.1.2A of IFRS 9.” To clarify the accounting treatment to be retained during the transition period, we encourage the Board to make explicit in the basis for conclusion whether one can consider that the guidance added for ESG-linked features is an acceptable application of IFRS 9 principles before amendments.

- (11) In paragraph B4.1.7A, the Board considers that time value of money and credit risk are typically the main components of interest rate, along with liquidity risks, administrative costs, and profit margin. Even if the IASB has mentioned explicitly in paragraph BC55 that such list is not exhaustive, we believe there would also be some merits to add 'cost of capital required to bear the debt asset loan' to the examples provided even if such component could be considered as being part of credit risk and reasonable profit margin.
- (12) We believe that the clarification brought by paragraph BC67, explaining that a change in contractual cash flows due to a contingent event that is specific to the creditor, [or another party] would fail SPPI, is a strong view. We encourage the Board to consider any unintended consequences arising from this statement.
- (13) Paragraph B4.1.10A states that a “the contingent event must be specific to the debtor”. We recommend clarifying further the concept of “debtor” to make explicit whether the condition would be met if the contingent event also relates to an indicator of the issuer’s subsidiary or issuer’s mother company.
- (14) When it comes to ESG components, we consider that there is an increasing number of factors that help attaching such component to credit risk such as the regulator and rating agencies publications. But in most situation nowadays, a clear linkage between ESG and credit risk will be difficult to demonstrate as an isolated factor. In our opinion ESG is currently more commonly seen as an incentive mechanism.
- (15) The main drawback we identified with the approach retained by the Board to provide an exception that is not specific to ESG linked features is the risk of creating structuring opportunities around other concepts. The exposure draft proposes to limit the contingent events that can benefit from this exception to events that are both i) specific to the debtor and ii) do neither represent an investment in the debtor nor an exposure to the performance of a specified asset. The vast majority of events that will meet these conditions are not hedgeable in the market. As a bank, beyond credit risk, is not designed to take a risk if it cannot hedge it, it may be considered that structuring opportunities around the proposed exception would in practice be limited.
- (16) In paragraph B4.1.8A, the ED clarifies that “the assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives.” We understand and agree with the principle of this sentence, but we would suggest to slightly amend it as follows: “The assessment of interest focuses more on what an entity is being compensated for, rather than how much compensation an entity receives.” This will help avoiding inconsistencies with the end of the paragraph.

- (17) Proposed paragraph B4.1.8A introduces the concepts of being “aligned with the direction and magnitude”. Alignment is a concept already existing within IFRS 9 when using options in hedging relationships. We doubt that the idea of the Board is to create here a parallel between these two situations and therefore recommend to the Board to change this wording. We also recommend to the Board not to use the word “magnitude” as it comes with little reference regarding classification assessment. It may raise too much interpretation challenges. We recommend to the Board to instead use the concept of “leverage” which is more commonly used for classification purposes notably in the context of embedded derivative assessment. In our view it would be a more practicable solution.
- (18) We welcome the examples proposed by the Board in the exposure draft as they provide a clear statement on an ESG linked loan. However, we suggest to the Board to add examples that are more complex, especially ones that demonstrate the limits of the ED requirements, for instance on misusing the exceptions, illustrating what the Board means by “investments in an entity” etc.
- (19) Finally, we welcome the Board’s initiative to launch a research project on amortised cost measurement as this will be a useful complement to this amendment.

## **IFRS 7 - DISCLOSURES REQUIREMENTS**

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### **Question 6 - Disclosures - contractual terms that could change the timing or amount of contractual cash flows.**

- (20) We are generally supportive of the additional disclosures in paragraphs 20B and 20C of the ED. Nevertheless, we draw the Board’s attention to practical challenges that might arise for banks. Given the number of instruments in the scope of this disclosure requirements, aggregation will be required, and we wonder whether this will result in information that will be easily understandable by users of banks’ financial statements.

## ANNEX 2: EFRAG DCL – QUESTIONS TO CONSTITUENTS

We are pleased to provide below our detailed responses to the questions.

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### Question to Constituents (paragraph 51 of the DCL)

*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?*

- (21) Please refer to our response in paragraphs 1 – 8 above.

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### Question to Constituents (paragraph 95 of the DCL)

*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?*

- (22) Please refer to our response in paragraphs 9 – 19 above.