## تعميم

الموضوع: طلب المجلس الدولي معلومات بشأن تطبيق معيار (٩).

**السادة/ مكاتب المحاسبة** **المحترمين**

**السلام عليكم ورحمة الله وبركاته**

نود إحاطتكم بأن مجلس المعايير الدولية للمحاسبة (IASB) نشر وثيقة لطلب المعلومات بشأن تطبيق المعيار الدولي للتقرير المالي رقم (٩)، وبشكل خاص فيما يتعلق بتصنيف وقياس الأدوات المالية، وذلك بهدف التعرف على أي مشاكل في التطبيق وما إذا كانت متطلبات المعيار قابلة للتطبيق وفقا للهدف منها.

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ويرجى إرسال المرئيات على البريد الإلكتروني (razeena@socpa.org.sa).

**وتقبلوا تحياتنا**

**الرئيس التنفيذي**

**د. أحمد بن عبدالله المغامس**

رقم المعاملة :٧٤٠٠٠٠
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مشفوعات :لا توجد مشفوعات

September 2021

IFRS® Standard
Request for Information

# Post-implementation Review

## IFRS 9 *Financial Instruments*
## Classification and Measurement

Comments to be received by 28 January 2022

# Request for Information

## Post-implementation Review of IFRS 9 —Classification and Measurement

*Comments to be received by 28 January 2022*

Request for Information *Post-implementation Review of IFRS 9—Classification and Measurement* is published by the International Accounting Standards Board (Board) for comment only. Comments need to be received by **28 January 2022** and should be submitted by email to commentletters@ifrs.org or online at https://www.ifrs.org/projects/open-for-comment/.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.



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## Introduction

The International Accounting Standards Board (Board) is undertaking a post-implementation review of IFRS 9 *Financial Instruments*.

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Improvements to the accounting for financial instruments introduced by IFRS 9 compared to IAS 39 include:

| | | |
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| a **classification and measurement approach** for financial assets that reflects the entity's business model and the asset's cash flow characteristics. | a forward-looking **expected credit loss model** that results in more timely recognition of loan losses. | a **hedge accounting model** with a better link between the economics of risk management and its accounting treatment. |

The Board is starting the review of IFRS 9 by looking at the classification and measurement approach.

## Timeline

**2014** In July 2014 the Board issued the complete version of IFRS 9, bringing together the three phases of its project to replace IAS 39—classification and measurement, impairment and hedge accounting.

**2018** IFRS 9 became effective for annual periods beginning on or after 1 January 2018.

**2020** In October 2020 the Board decided to begin the post-implementation review of IFRS 9, starting with classification and measurement. The reviews of impairment and hedge accounting will follow.

## What is a post-implementation review?

The Board reviews each new IFRS Standard or major amendment after it has been implemented for at least two years. A post-implementation review is an opportunity for the Board to assess the effect of the new requirements on preparers of financial statements, users of financial statements, auditors and regulators. In a post-implementation review the Board assesses whether:

| | |
|---|---|
| the **objectives** of the standard-setting project have been met. | information provided by the Standard is **useful** to users of financial statements. |
| the **costs** are as expected for preparing, auditing, enforcing or using the information entities provide when applying the Standard. | the Standard can be applied **consistently**. |

A post-implementation review is also an opportunity for the Board to identify lessons learned that could be helpful for future standard-setting projects.

## What steps are involved in a post-implementation review?

Step 1

Initial identification and assessment of matters for the Board to examine, drawing on discussions with advisory groups and other interested parties.

The Board publishes a **request for information** seeking information on the matters identified in Step 1 and any other information relevant to the post-implementation review. Anyone can respond.

Step 2

The Board considers comments from the public consultation along with information gathered from any additional analysis (including reviews of academic literature) and other consultative activities.

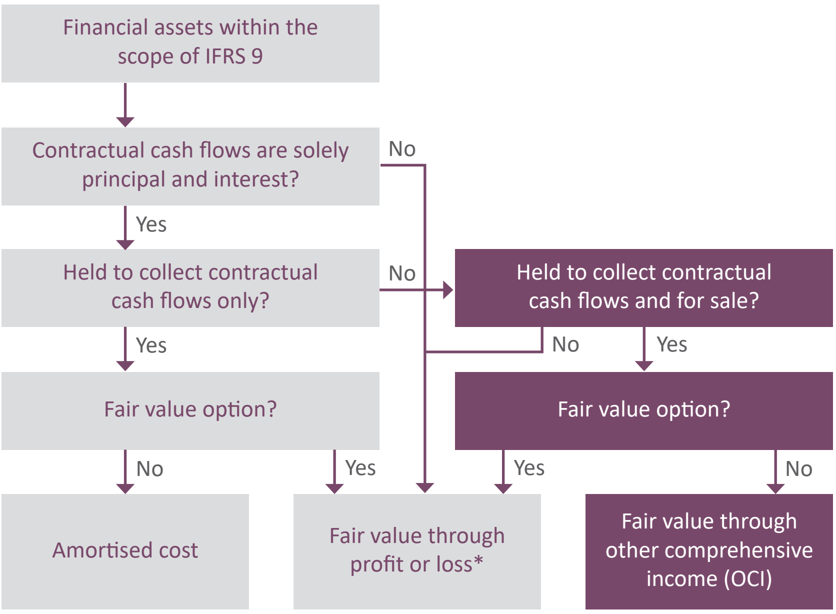
The Board publishes a **report and feedback statement** summarising its findings and, if any, next steps. The next steps may include providing educational materials or considering possible standard-setting.

## What sections of IFRS 9 is the Board reviewing?

The Board will review IFRS 9 in its entirety. The review will include the related requirements in IFRS 7 *Financial Instruments: Disclosures*. In this Request for Information, the Board is seeking feedback on the classification and measurement requirements in IFRS 9, including the related disclosure requirements. The Board will seek feedback separately on the impairment requirements (Section 5.5 of IFRS 9) and hedge accounting requirements (Section 6 of IFRS 9)—including the transition requirements related to those sections—when more information is available about the effects of the application of those sections. In this document we refer to the requirements in IFRS 9 excluding those sections as 'the classification and measurement requirements'.

### Figure 1—Classification and measurement approach in IFRS 9

This illustration shows the process for determining the classification and measurement of financial assets.




* For investments in equity instruments that are not held for trading, IFRS 9 includes an irrevocable option to present fair value changes in OCI.

# Invitation to Comment

## Summary of questions

This Request for Information sets out questions in nine sections:

(a) **Section 1** seeks general information on the effects the application of the classification and measurement requirements of IFRS 9 has had on preparers of financial statements, users of financial statements, auditors and regulators;

(b) **Sections 2–8** seek information on specific areas of the classification and measurement requirements; and

(c) **Section 9** seeks other information relevant to the post-implementation review of the classification and measurement requirements.

Responses will inform the Board's post-implementation review assessments (see 'What is a post-implementation review?' in the introduction to this document).

## Guidance for responding to questions

Respondents need not answer all questions. Comments are most helpful if they:

(a) answer the questions as stated;

(b) indicate the paragraph(s) of IFRS 9 to which they relate;

(c) describe fact patterns relevant to the questions and explain:

  (i) how the IFRS 9 requirements apply;

  (ii) the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect);

  (iii) how widespread the fact pattern is; and

(d) are supported by evidence when relevant.

Preparers of financial statements, please respond to questions considering your entity's accounting treatment. Auditors, regulators and users of financial statements, please respond to questions considering financial statements you audit, regulate or use.

## Deadline

The Board will consider all written comments received by **28 January 2022**.

## How to comment

Please submit your comments electronically:

| | |
|---|---|
| Online | https://www.ifrs.org/projects/open-for-comment/ |
| By email | commentletters@ifrs.org |

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

## Request for Information

## 1. Classification and measurement

### Background

The IFRS 9 approach to classifying and measuring financial assets was developed in response to long-standing and widespread stakeholder views that the approach in IAS 39 was too rule-based and complex. IAS 39 had many classification categories for financial assets, each category with its own rules for determining which financial assets were required or permitted to belong in that category, and for identifying and measuring impairment. IFRS 9 provides a principle-based approach that applies to all financial assets. That approach aligns measurement with the contractual cash flow characteristics of the assets and the way the entity manages them. Measurement aligned to both these factors provides users of financial statements with useful information about the amount, timing and uncertainty of the entity's future cash flows.

When the Board issued IFRS 9, it expected that the Standard would introduce significant and sustained improvements to the reporting for financial assets. However, the Board could not generalise the likely effect IFRS 9 would have on individual entities because the effect would depend on individual circumstances. The overall change in the classification of financial assets depended on the choices previously made by entities in applying IAS 39, their business models for managing the financial assets, and the contractual cash flow characteristics of their financial assets.

The Board retained the IAS 39 classification and measurement requirements for financial liabilities substantially unchanged in IFRS 9 because feedback suggested the requirements for financial liabilities in IAS 39 worked well. However, IFRS 9 addressed the one issue consistently raised by stakeholders regarding financial liabilities—the so-called 'own credit issue' relating to gains and losses arising from changes in the credit risk of financial liabilities an entity elected to be measured at fair value through profit or loss.

### Spotlight 1—What we have heard so far

Information gathered since IFRS 9 became effective suggests that, while stakeholders generally welcome the changes introduced by IFRS 9, for many preparers of financial statements the changes to the classification and measurement requirements had little effect on their accounting for financial instruments. For example, many basic lending arrangements frequently issued by traditional banking businesses were measured at amortised cost applying IAS 39 and continue to be so measured applying IFRS 9.

**Question 1—Classification and measurement**

**Do the classification and measurement requirements in IFRS 9:**

(a) **enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not?**

(b) **result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not?**

Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments.

This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 seek more detailed information on the specific requirements.

## 2. Business model for managing financial assets

### Background

In the context of IFRS 9, a 'business model' refers to how an entity manages its financial assets to generate cash flows—by collecting contractual cash flows, selling financial assets or both. Consequently, classification and measurement based on the business model provides information that is useful in assessing the amounts, timing and uncertainty of an entity's future cash flows.

An entity determines the business model at a level of aggregation that reflects how it manages groups of financial assets to achieve a business objective. An entity's business model does not depend on management's intentions for an individual instrument. However, an entity may have more than one business model for managing its financial assets.

An entity's business model is typically observable through the entity's activities to achieve its business objective. An entity considers all available relevant evidence to determine the business model. Such evidence includes, but is not limited to:

- how the performance of financial assets is evaluated and reported to the entity's management;
- the risks that affect the performance of the financial assets and the way those risks are managed; and
- how managers of the business are compensated.

### Spotlight 2—Reclassification

Changes in the classification and measurement of financial assets subsequent to initial recognition can make financial statements more difficult to understand, particularly when comparing information from period to period. Therefore, the Board established conditions for reclassification that it intended would be met only on occurrence of a significant event. IFRS 9 requires financial assets to be reclassified between measurement categories when—and only when—the entity's business model for managing them changes. In accordance with IFRS 9, a change in business model is a significant event and is expected to be rare. Limited reclassification results in an entity accounting for its financial assets consistently over time. This consistency in accounting enhances comparability.

IFRS 7 requires disclosures to enable users of financial statements to understand why and how financial assets have been reclassified.

The Board would like to understand in which situations and how frequently reclassifications have occurred. Furthermore, the Board is interested in information about situations in which a significant event has occurred but for which the conditions in IFRS 9 for a change in business model have not been met.

**Question 2—Business model for managing financial assets**

(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.

(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.

(c) **Are there any unexpected effects arising from the business model assessment? How significant are these 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).

## 3. Contractual cash flow characteristics

### Background

Amortised cost is a simple measurement technique that allocates interest payments using the effective interest method over the life of a financial instrument. As explained in paragraph BC4.23 of the Basis for Conclusions on IFRS 9, in the Board's view, amortised cost can provide useful information only if the contractual cash flows do not introduce risks or volatility that are inconsistent with a basic lending arrangement. Therefore, one condition for determining how to classify and measure a financial asset is whether the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). Only financial assets with SPPI cash flows are eligible for measurement using amortised cost or fair value through OCI, subject to the business model in which the asset is held.

The objective of the effective interest method for financial instruments measured at amortised cost is to allocate interest revenue or expense to the relevant period. Cash flows that are interest are always closely related to the amount advanced to the debtor. The effective interest method, combined with the expected credit loss impairment model, provides relevant information for financial assets with SPPI cash flows. When the Board developed IFRS 9, it noted that the effective interest method is inappropriate for allocating cash flows that are not SPPI. The Board concluded that if a financial asset contains cash flows that are not SPPI, then fair value measurement is required to ensure that the financial statements provide useful information about the amount, timing and uncertainty of future cash flows of that financial asset.

Often it will be readily apparent whether contractual cash flows are SPPI, but sometimes closer analysis is required and IFRS 9 provides guidance for making this assessment. For example, it explains that interest can comprise a return not only for the time value of money and credit risk but also for other components, such as a return for liquidity risk, amounts to cover expenses and a profit margin.

Unlike IAS 39, IFRS 9 does not require or permit embedded derivatives to be separated from financial assets. Accordingly, an entity assesses the contractual cash flow characteristics of a financial asset in its entirety. The assessment is principle-based and was designed so it could be applied to any financial asset within the scope of IFRS 9.

### Spotlight 3.1—Financial instruments with sustainability-linked features

Recent market developments have given rise to an increase in financial instruments with contractual terms that relate to sustainability initiatives, indices or targets. In some cases, these terms can affect the contractual cash flows of the instrument. For example, the interest rate on a loan may vary depending on whether the borrower meets specified environmental, social and governance (ESG) targets.

Stakeholders have informed the Board that there are many types of financial instruments with sustainability-linked features. Broadly, they include:

- green loans or bonds (financial instruments for which the principal is used exclusively to finance 'green projects' and for which achievement of ESG targets does not give rise to variabilities in the contractual cash flows);

- structured instruments linked to green indices (financial instruments with contractual cash flows linked to a green index that is not specific to a party to the contract, such as the Euronext CDP Environment World EW Index); and
- financial instruments with contractual cash flows linked to ESG targets specific to the borrower (for example, financial assets with interest rates that change based on whether the borrower meets pre-determined ESG targets).

The Board is seeking information about whether:

- IFRS 9 provides sufficient guidance to enable entities to determine whether financial assets with sustainability-linked features have SPPI cash flows; and
- applying the contractual cash flow characteristics assessment to those financial assets results in those assets being measured using an approach that provides users of financial statements with useful information about the amount, timing and uncertainty of future cash flows.

***Financial assets with contractual cash flows linked to ESG targets***

Recently, some stakeholders shared with the Board their initial SPPI assessments for financial assets with contractual cash flows linked to ESG targets.

In their assessment, some stakeholders considered whether in some circumstances interest rate adjustments linked to ESG targets could be SPPI because they represent:

- consideration for the **credit risk** of the financial assets. The Board would like to understand the contractual terms of financial assets for which stakeholders think this could be the case, and how the entity makes this assessment and considers the relationship between the ESG targets and the credit risk associated with the principal amount outstanding as described in paragraph 4.1.3(b) of IFRS 9.
- a **profit margin**. The Board would like to understand the contractual terms of financial assets for which stakeholders think this could be the case and how the entity makes its assessment and considers paragraph B4.1.10 of IFRS 9, which applies to contractual terms that could give rise to variability in the contractual cash flows.

Some other stakeholders take an approach that asks 'for what risk or exposure does the ESG-linked variability in the contractual cash flows compensate the entity?' The Board would like to understand from those stakeholders:

- which requirements in IFRS 9 are being applied to support this approach;
- what contractual terms and conditions of the financial asset are being considered applying those requirements; and
- what conclusions they are reaching and why.

***Financial liabilities with sustainability-linked features***

Some stakeholders noted that the issuer of sustainability-linked bonds will need to assess for the financial liability whether the sustainability-linked features are embedded derivatives and if so, whether they need to be separated from the host contract. The Board is aware that stakeholders have been discussing this assessment, but is not aware of any concerns or questions in this regard.

### Spotlight 3.2—Contractually linked instruments

The requirements in IFRS 9 for contractually linked instruments apply only to particular types of financial assets. Some financial assets are structured in multiple tranches that create concentrations of credit risk. The payments on all tranches are contractually linked to payments on a pool of underlying instruments and the holders of each tranche have the contractual right to payments only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches. These financial assets are referred to as contractually linked instruments (or tranches). IFRS 9 requires the classification of such contractually linked instruments to be assessed based on the conditions at the date the holder initially recognised the instrument using a 'look-through' approach. Classification is based on the terms of the instrument (to determine whether it includes SPPI cash flows), and on an assessment of the pool of underlying instruments. This assessment considers the characteristics of the underlying instruments and the tranche's exposure to credit risk relative to the credit risk of the pool of underlying instruments.

The Board would like to understand the fact patterns to which the requirements for contractually linked instruments are being applied, and the outcome of applying them. The Board also would like to understand whether IFRS 9 provides sufficient application guidance on contractually linked instruments, for example, on the scope of the financial assets to which the requirements apply. The Board would like to understand in what circumstances it is complex to assess whether a financial asset is a contractually linked instrument and why it is complex.

**Question 3—Contractual cash flow characteristics**

(a) **Is the cash flow characteristics assessment working as the Board intended? Why or why not?**

Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows.

If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain:

(i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI).

(ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, 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). (See Section 7 for more questions about applying the effective interest method.)

(b) **Can the cash flow characteristics assessment be applied consistently? Why or why not?**

Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features).

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) **Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?**

Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about **financial instruments with sustainability-linked features** (see Spotlight 3.1) and **contractually linked instruments** (see Spotlight 3.2).

## 4. Equity instruments and other comprehensive income

### Background

Equity instruments do not have SPPI cash flows and therefore are measured at fair value through profit or loss. As explained in paragraph BC5.22 of the Basis for Conclusions on IFRS 9, in the Board's view, fair value provides the most useful information about the amount, timing and uncertainty of the cash flows arising from investments in equity instruments. The statement of profit or loss is the primary source of information about an entity's financial performance for the reporting period. Recognising fair value gains and losses in profit or loss in each reporting period that the entity holds equity instruments provides useful information to users of financial statements about the performance of the entity's investments in those financial assets.

The Board acknowledged when it developed IFRS 9 that, in a narrow set of circumstances, presenting fair value gains and losses from equity investments in profit or loss may not be indicative of the entity's performance. This could be the case if the entity holds those equity instruments primarily for reasons other than for value increases or for cash distributions (that is, other than for generating investment returns). One reason could be that an entity needs to hold an investment to be permitted to sell its products in a particular country. Therefore, IFRS 9 permits an entity to make an irrevocable election at initial recognition to present in OCI changes in the value of an investment in an equity instrument not held for trading. Those gains and losses are not 'recycled' to profit or loss on disposal of the investment, and the investment is not subject to impairment requirements.

IFRS 7 requires an entity to disclose information about investments in equity instruments for which the entity has elected to present fair value changes in OCI, including which investments the entity has made the election for and the reason for using this presentation alternative.

### Spotlight 4—Recycling gains and losses

'Recycling gains and losses' refers to reclassifying into the statement of profit or loss income and expenses that have been included in OCI in a previous period.

IFRS 9 prohibits the recycling of gains and losses on investments in equity instruments for which an entity has elected to present fair value changes in OCI. This prohibition was a contentious issue while the Board was developing IFRS 9. Stakeholders hold mixed views, and some are of the view that those gains and losses should be reclassified to profit or loss on the disposal of the equity instruments. Stakeholders with that view have suggested in the past that accounting treatment should maintain a distinction between realised and unrealised gains and losses. Some stakeholders suggest that without recycling of realised gains and losses on disposals, users of financial statements are provided with insufficient information about those disposals. In their view, this in turn could result in long-term investments in equity instruments being less attractive to entities.

As explained in paragraph BC5.25(b) of the Basis for Conclusions on IFRS 9, in the Board's view, gains and losses on investments in equity instruments should be recognised only once. Therefore, recognising a gain or loss in OCI and subsequently transferring it to profit or loss would be inappropriate. If those gains and losses represent the entity's performance, the most useful information about that investment is provided by measuring the investments at fair value with value changes recognised in the statement of profit or loss over the periods that the entity holds the investments. In contrast, if those gains and losses do not represent the entity's performance, useful information may be provided by presenting such gains and losses in OCI. When the Board developed IFRS 9, it was not persuaded by the view that recycling gains and losses on disposal of the investment would provide more relevant information or result in a more faithful representation of the entity's financial performance in the period of the disposal.

When the Board developed IFRS 9, it considered what the consequences would be if it were to require or permit recycling of gains and losses from OCI to profit or loss on the disposal of investments in equity instruments. Consequences noted by the Board include:

- increased complexity to the financial reporting for financial assets. If recycling were introduced for equity instruments for which the entity has elected to present fair value changes in OCI, this presentation option would be similar to the available-for-sale category in IAS 39. As with the available-for-sale-category, recycling would impose the need for entities to assess such equity instruments for impairment. This assessment created significant application problems for entities applying IAS 39.

- the creation of opportunities for earnings management. An entity could time the disposal of loss-making or profit-making investments to achieve a desired outcome in a particular reporting period. Such earnings management would be possible even if the investments were subject to impairment requirements.

Some stakeholders questioned whether non-recycling for investments in equity instruments in IFRS 9 is consistent with the *Conceptual Framework for Financial Reporting*. The *Conceptual Framework* explains that, in principle, income and expenses included in OCI in one period are reclassified into profit or loss in a future period when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the Board may, in developing Standards, decide that income and expenses included in OCI are not to be subsequently reclassified.

**Question 4—Equity instruments and other comprehensive income**

(a) **Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not?**

Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied).

For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7.

(b) **For what equity instruments do entities elect to present fair value changes in OCI?**

Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments.

(c) **Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects?**

Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects.

In responding to (a)–(c), please include information about **recycling of gains and losses** (see Spotlight 4).

## 5. Financial liabilities and own credit

### Background

The feedback received by the Board when it developed IFRS 9 indicated that the approach to the classification and measurement of financial liabilities in IAS 39 should be retained. The Board concluded that the benefits of changing practice would not outweigh the costs of disruption. The only issue with the IAS 39 requirements for financial liabilities that the Board was told needed reconsideration was the profit or loss effects caused by changes in the fair value of a liability resulting from changes in the risk that the issuer will fail to meet its obligations for that liability.

The fair value of an entity's own debt is affected by changes in the entity's own credit risk (own credit). This means that when an entity's credit quality declines the value of its liabilities fall and, if those liabilities are measured at fair value, the entity recognises a gain (and if the entity's credit quality improves, the entity recognises a loss). Many users of financial statements and others found this result counterintuitive and confusing.

By retaining almost all of the requirements from IAS 39, the issue of credit risk was addressed for most liabilities because most liabilities continue to be subsequently measured at amortised cost or are separated into a host, which would be measured at amortised cost, and an embedded derivative that would be measured at fair value. Liabilities that are held for trading (including all derivative liabilities) would continue to be measured subsequently at fair value through profit or loss, which is consistent with feedback when IFRS 9 was being developed that all fair value changes for those liabilities should affect profit or loss. However, IFRS 9 also permits entities to designate financial liabilities at fair value through profit or loss if particular criteria are met. To address concerns about counterintuitive and confusing results for those financial liabilities voluntarily designated at fair value through profit or loss, IFRS 9 requires changes in the fair value of an entity's own credit risk to be recognised in OCI rather than in profit or loss (unless doing so would create or enlarge an accounting mismatch in profit or loss).

**Question 5— Financial liabilities and own credit**

(a) **Are the requirements for presenting the effects of own credit in OCI 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.

(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.

## 6. Modifications to contractual cash flows

### Background

When contractual cash flows are renegotiated or otherwise modified, the modification could result in the entity derecognising or recalculating the carrying amount (gross carrying amount for financial assets) of the financial instrument.

IFRS 9 does not define a 'modification' of a financial asset or financial liability. Paragraph 5.4.3 of IFRS 9 refers to the modification or renegotiation of the contractual cash flows of a financial asset, while paragraph 3.3.2 of IFRS 9 refers to the 'modification of the terms' of a financial liability.

Recently, when amending IFRS 9 to account for the effects of interest rate benchmark reform, the Board acknowledged that the omission of a description of a 'modification' in IFRS 9, and that the use of different wording to describe a modification of a financial asset and a financial liability, could lead to diversity in practice. However, the Board noted that although paragraphs 3.3.2 and 5.4.3 of IFRS 9 use slightly different words, both refer to a change in the contractual cash flows or contractual terms after the initial recognition of the financial instrument. At the time, the Board suggested it might be helpful to clarify the requirements for modifications and said it would consider making a possible narrow-scope amendment to IFRS 9. An example that was discussed by the Board concerned whether and in what circumstances entities consider a modification to have occurred for the purpose of IFRS 9 if the words in a contract determining the cash flows of a financial asset are unchanged but the basis for calculating an input referred to in the contract is changed.

**Question 6— Modifications to contractual cash flows**

(a) **Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not?**

Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements?

(b) **Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not?**

Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities?

If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

## 7. Amortised cost and the effective interest method

### Background

The effective interest method is the method used to calculate the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest revenue or interest expense in profit or loss over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses (for financial assets). The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

IFRS 9 provides requirements on using the effective interest method, including requirements to reflect changes in cash flows resulting from:

- modifications;
- movements in market rates of interest; and
- other changes in estimates (the so-called 'catch-up adjustment').

### Spotlight 7—Interest rates subject to conditions and estimating future cash flows

The Board would like to understand whether the application guidance for the effective interest method enables consistent application of the method.

Recently, the Board has learned of differing views on and various questions about calculating the effective interest rate at initial recognition of a financial instrument and how to account for subsequent changes in estimates of cash flows. Questions relate to interest rates subject to conditions and to estimating future cash flows (for example, how to factor in changes in estimated cash flows including modifications). For example:

- in June 2021, the IFRS Interpretations Committee (Committee) discussed a question on the accounting for loans provided to banks by the European Central Bank under its most recent targeted longer-term refinancing operation (TLTRO III). In the fact pattern discussed, a question arose on how a change in the estimates of amounts due is accounted for when those amounts are subject to a contingent event. More specifically, in the fact pattern described, interest rates on the loans were subject to a reduction upon the bank achieving a specified lending target. A question arose as to whether the effective interest rate (both at initial recognition and subsequently) reflects an assessment of whether the bank will satisfy the lending target. The Committee decided that because the question is relevant in a wider context, it should be considered as part of this post-implementation review.

- some stakeholders asked how to calculate the effective interest rate on financial assets with ESG features if those assets are classified as measured at amortised cost or at fair value through OCI given the conditions attached to the interest rate adjustments. Those stakeholders also asked how to account for changes in estimates of amounts due or payable on such financial instruments if the effective interest method were applicable. (See Section 3 for additional question on these financial assets).

**Question 7—Amortised cost and the effective interest method**

(a) **Is the effective interest method working as the Board intended? Why or why not?**

Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method.

(b) **Can the effective interest method be applied consistently? Why or why not?**

Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply.

Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are.

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

In responding to questions (a)–(b), please include information about **interest rates subject to conditions and estimating future cash flows** (see Spotlight 7).

## 8. Transition

### Background

Upon their transition to IFRS 9, entities were required to apply the Standard retrospectively, but with reliefs to address difficulties that might have arisen from retrospective application.

Applying some of those transition reliefs that relate to classification and measurement, entities:

- assessed whether the objective of an entity's business model was to manage financial assets to collect contractual cash flows based on circumstances at the date of initial application of IFRS 9 rather than at the date the related financial instrument was initially recognised;
- assessed whether a financial asset or financial liability met the criterion for designation under the fair value option based on the circumstances at the date of initial application rather than at the date the related financial instrument was initially recognised;
- were permitted but not required to present restated comparative information on initial application of the Standard; and
- did not apply IFRS 9 to financial instruments derecognised before the date of initial application.

As the Board waived the requirement to present restated comparative information, it instead required entities to disclose the effect on classification of financial instruments of the transition to IFRS 9.

**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?

## 9. Other matters

### Background

Sections 2–8 focus on matters the Board has identified as areas of interest to examine further in the post-implementation review of the classification and measurement requirements of IFRS 9.

This section provides stakeholders with an opportunity to share feedback on other matters relevant to the post-implementation review.

Please share any information that would be helpful to the Board in assessing whether:

| | |
|---|---|
| the **objectives** of the standard-setting project have been met. | information provided by the Standard is **useful** to users of financial statements. |
| the **costs** are as expected for preparing, auditing, enforcing or using the information entities provide when applying the Standard. | the Standard can be applied **consistently**. |

In this Request for Information, the Board is not seeking feedback on the requirements for impairment (Section 5.5 of IFRS 9) and hedge accounting (Section 6 of IFRS 9), including related transition requirements. The Board will seek feedback separately on those sections of IFRS 9.

**Question 9—Other matters**

(a) **Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement requirements in IFRS 9? If yes, what are those matters and why should they be examined?**

Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant.

(b) **Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?**