

July 10, 2023

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD, United Kingdom

**RE: Amendments to the Classification and Measurement of Financial Instruments
Proposed Amendments to IFRS 9 and IFRS 7**

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the Exposure Draft, *Amendments to the Classification and Measurement of Financial Instruments- Proposed Amendments to IFRS 9 and IFRS 7*.

Our detailed comments on the questions raised in the Exposure Draft are attached in the appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames

SOCPA Chief Executive Officer

Appendix: SOCPA Comments on: Amendments to the Classification and Measurement of Financial Instruments- Proposed Amendments to IFRS 9 and IFRS 7

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?

SOCPA Comments:

SOCPA agrees with the proposed amendments to paragraph B3.3.8 of IFRS 9 when the specified criteria are met, for an entity to be permitted to derecognize a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity. However, we anticipate that preparers in the financial services sector will face significant difficulties in fulfilling the set criteria as a result of the existing payment recall mechanisms. Example: Chargebacks relating to credit card transactions, Wire transfer recalls, Automated clearing house reversals, PayPal disputes etc.

In addition, SOCPA would like to suggest expanding the criteria to include regulatory and operational requirements. Depending on the jurisdiction and the nature of the financial liability, there may be regulatory and operational requirements that need to be fulfilled before considering the amount settled and for the liability to be derecognized. Compliance with relevant laws, regulations, and internal policies should be evaluated prior to derecognizing the financial liability.

Also, SOCPA would like to raise the question as to how currency risk would be addressed when payment involves cross-border transactions & different currencies. The risks associated with currency exchange rates or conversion fees may impact settlement of the financial liability.

Example: Entity A in the US has a liability of AUD 1,300 to settle Entity B in Australia. Entity A pays US\$ 1,000 to Entity B in Australia. The exchange rate at the time of settlement is US\$ 1 = AUD 1.30, however, at the time the money is received by Entity B, the exchange rate is US\$ 1 = AUD 1.25. If Entity A derecognizes the liability in its system at the time the electronic payment is made, it will be required to create an additional liability to make the final settlement. Other conversion fees involved in such a transaction could also create complications.

SOCPA therefore believes the proposed amendments will require changes to the information technology systems used by preparers. The implementation process may be time consuming and cumbersome, particularly for organizations with large and complex financial instrument portfolios.

Comments received from preparers during an outreach carried out by SOCPA indicated that they believed that this amendment provides more flexibility to preparers, however it creates inconsistencies between the 2 parties involved in any given financial liability cycle due to the mismatch between the liability derecognition date and the asset recognition date from the other party. In addition, there were also suggestions to include in B3.3.8, “redirect payment source” to cover cases where the payer may be able to redirect payment source and hence the liability may not be discharged.

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?

SOCPA Comments:

SOCPA recognizes the urgent need for the issuance of guidance due to the continuous increase in investments in financial instruments with ESG-linked features. It appreciates the efforts made by the IASB in this regard. SOCPA also concurs with the IASB's decision to adopt a broad approach by not granting a specific exemption from the contractual cash flow characteristics requirements in IFRS 9 for financial assets with ESG-linked features.

Additionally, SOCPA holds the view that the Basis for Conclusion provides comprehensive explanations and clarifications regarding the assessment of whether the contractual cash flows of financial assets with ESG-linked or comparable features satisfy the SPPI requirements. It suggests that certain portions (example: BC68 & BC69 of Basis for Conclusion) of these

explanations and clarifications could be incorporated into the main body of the standard to offer preparers more pertinent information for making informed determinations. This approach would not only enhance consistency among preparers but also ensure that they have access to the most relevant guidance.

Furthermore, SOCPA is of the opinion that the examples provided in B4.1.13 and B4.1.14 are insufficient. Given the substantial rise in financial instruments incorporating ESG-linked features, as well as the projected significant growth in their volume, SOCPA highlights the need for additional examples. Given the unique nature of ESG-linked features and the associated complexities, including more illustrative examples would be beneficial.

Comments received from preparers during an outreach carried out by SOCPA indicated that they believe basic lending risks are a relative term and greatly vary, for example, between a simple retail bank vs an investment bank. A sophisticated bank with lending compensation covering derivative arrangements such a swap fee may consider this as a basic lending arrangement for its business model. It would also be helpful to give further clarity regarding compensation, which do not directly vary with time but cover other risks such as hedging.

Preparers also stated that such an approach is principle-based and would provide more flexibility in the future if new instruments with similar types of features emerge. They suggest that the IASB provides a definition and examples of what constitutes a “contingent event”, and to clarify that the "de Minimis" guidance remains applicable when applying SPPI requirements.

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?

SOCPA Comments:

SOCPA believes the proposed inclusion of paragraph B4.1.16A in IFRS 9 which clarifies the term “non-recourse features” will result in preparers having to use judgement when determining whether a financial product includes non-recourse features. This could be challenging in certain instances, specifically when there are contractually linked instruments. The linkage between these instruments can create complex financial arrangements and may

require careful analysis and evaluation of their combined effects.

The implementation of this proposal will require some effort, particularly for organizations with large and complex financial instrument portfolios.

Comments received from preparers during an outreach carried out by SOCPA indicated that The term "non-recourse" could also encompass situations where there are no designated assets, and recourse is limited to the occurrence or non-occurrence of an event for recovery. It would be helpful to cover this as well.

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?

SOCPA Comments:

SOCPA is aware that many preparers face significant issues when accounting for transactions containing multiple contractually linked instruments. There is a lack of consensus regarding the interpretation of terms used in the Standard to describe the types of instruments to which the requirements are applicable. This has led to diversity in practice. Therefore, SOCPA welcomes the effort by the IASB to clarify the scope of the requirements in B4.1.20–B4.1.26 of IFRS 9.

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:

- (a) 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
- (b) 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 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?

SOCPA Comments:

SOCPA is of the view that in order for a user to fully understand the financial performance of equity investments, when an investment is disposed of, the user would want to know the fair value changes accumulated in other comprehensive income up to the date of disposal. This information is currently not available to a user as these amounts are not recycled to profit or loss. Recycling realized gains and losses from OCI to profit or loss raises a fundamental question and necessitates a more comprehensive understanding of the specific purpose of profit or loss in comparison to OCI. Therefore, SOCPA considers the suggested modifications to IFRS 7 to be reasonable and in this context the addition of paragraph 11A(f) of IFRS 7 is welcome.

Comments received from preparers during an outreach carried out by SOCPA indicated that removing the instrument-by-instrument disclosure may result in loss of useful information (especially for level 3 instruments) and hence those preparers do not support disclosure at an aggregate level.

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

Paragraph 20B of the draft amendments to IFRS 7 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?

SOCPA Comments:

SOCPA believes that a significant effort may be necessary to acquire the quantitative and qualitative data for disclosing information related to financial instruments with contingent features as required by the proposed paragraph 20B unless the entity's risk management processes include the routine collection and analysis of such data.

Therefore, in order to ensure preparers are not burdened with such requirements, SOCPA suggests the disclosures required by proposed paragraph 20B(a) and 20B(b) be made optional unless the entity's risk management processes include the routine collection and analysis of such data. From BC 103 of the Basis for Conclusions it is apparent that the IASB is aware of the costs for preparers in obtaining this information and therefore SOCPA suggests the IASB revisits the proposed requirement.

Comments received from preparers during an outreach carried out by SOCPA indicated that it would be helpful if the standard would also provide specific details of what needs to be disclosed for each type of asset (i.e. assets at amortized cost, FVOCI and financial liabilities measured at amortized cost).

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?

SOCPA Comments:

SOCPA agrees with the proposed transition requirements which are consistent with what was required on initial application of IFRS 9. SOCPA believes this approach is expected to be cost beneficial as entities would incur minimal costs as they would have access to transition information and would not be obliged to restate previous periods. In any case, it is very unlikely that most preparers would be capable of preparing restated comparative information, without employing hindsight when considering those transactions.

General Comments:

- Organizations may face challenges in collecting relevant data, implementing new systems, and reconciling data from different sources. Example: disclosures required by proposed paragraph 20B (as given in our comments above) could be challenging
- Approach to risk management, which may be challenging for some organizations. They may need to revisit their risk management framework and processes to ensure compliance. Example: Derecognising liabilities based on the proposed criteria would require revisiting risk management policies.
- The implementation process may be time consuming and cumbersome, particularly for organizations with large and complex financial instruments portfolios.
- Amendments may require added costs to be incurred by entities, in addition to updating accounting systems and software, entities will be required to provide training to employees.