

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

PIR IFRS 9 – Assessment of selected issues Cover Note

Objective

- 1 The objective of this session is to develop an assessment of the selected issues as input for the Post Implementation Review of IFRS 9 *Financial Instruments*.

Background

- 2 During February – March 2021, the EFRAG Secretariat consulted EFRAG working groups (Academic Panel, FIWG, IAWG, User Panel, CFSS) and had an exchange with the IFRS 9 Task Force of Accountancy Europe. This consultation has allowed to prepare a first comprehensive list of issues that have been reported to the IASB Staff, including at the ASAF member in March 2021.
- 3 On 9 June 2021, the EFRAG Board decided that the future EFRAG response to the Request for Information (RFI) on IFRS 9 *Financial Instruments* should include views about the technical merits of the *key* issues reported. The remaining issues are to be reported to the IASB without an accompanying assessment.
- 4 The EFRAG Board further decided that the technical assessment should be focused on providing indications as to whether standard setting is considered necessary to solve the issue, without providing indications of the possible standard setting solution itself. When assessing the technical merits, to the extent possible, the EFRAG response to the RFI should also provide indications of the type of standard setting activity needed (e.g. amendments to the standard, educational material).
- 5 The EFRAG Board suggested the following indicators on how to identify key issues and to consult also on these indicators and on the resulting prioritisation of the issues:
 - (a) Issues where the current requirements lead to unintended consequences;
 - (b) Issues where there is an inconsistency or lack of clarity in IFRS 9; and
 - (c) Issues that are newly emerging, including issues with a possible relevance for European Public Good (such as the recycling of OCI for equity instruments and the treatment of green bonds).
- 6 It was noted that for some issues EFRAG has already developed views and it would be sufficient to repeat the existing positions.¹ This relates to:
 - (a) Recycling the changes in FV accumulated in OCI for equity instruments; and

¹ EFRAG Advice to the EC on alternative accounting treatments for equity and equity-like financial instruments held in a long-term investment business model.

- (b) FVTPL treatment for equity-type instruments (e.g. units of funds).
- 7 During its meeting of 17 June 2021 EFRAG TEG selected the following topics to develop views upon:
- (a) Sustainable finance – SPPI test;
 - (b) SPPI – use of administrative rates;
 - (c) Contractually linked instruments – non-recourse;
 - (d) Accounting for Targeted longer-term refinancing operations – and broader aspects on determining the effective interest rate;
 - (e) Modifications of cash flows;
 - (f) Financial guarantees;
 - (g) Impact of COVID-19 on the business model;
 - (h) Supply chain financing;
 - (i) Loans granted to entities under common control (withdrawn after exchange with the TEG member proposing it);
 - (j) Conflicts between IFRS 9 and IFRS 15 *Revenue from Contracts with Customers* on trade receivables (withdrawn after exchange with the TEG member proposing it); and
 - (k) Derecognition and issues arising from securitisation (withdrawn after further exchange with the TEG member proposing it).
- 8 During its meeting of 1 July 2021, EFRAG FIWG assessed the topics raised above and provided comments which are reflected in paper 08-02.
- 9 The remaining topics are discussed in paper 08-02.
- 10 The issue on applying the SPPI test to sustainable finance products was seen as an implementation of an emerging issue rather than that the current guidance is perceived as unclear. The EFRAG Secretariat has collected fact patterns on this issue which are further described in paper 08-03.

Questions for EFRAG TEG

- 11 Do EFRAG TEG members agree with the EFRAG FIWG suggestions in paper 08-02? Please explain.
- 12 How should the IASB address the concerns raised - by way of amending IFRS 9, educational material, other? Please explain.
- 13 Do EFRAG TEG members agree to submit the information collected on the use of ESG ratchets to the IASB (paper 08-03)?

Agenda Papers

- 14 In addition to this cover note, the following papers have been used for this meeting:
- (a) Agenda paper 08-02 – IFRS 9 PIR – Assessment of selected issues;
 - (b) Agenda paper 08-03 – IFRS 9 PIR – Interaction of green/sustainable finance and IFRS 9 requirements