Post Implementation Review IFRS 9 – Remaining issues

Objective

1 This paper provides an overview of the issues relating to IFRS 9 that were reported to EFRAG in the preliminary works to writing the draft comment letter but that were not included in the answer to the Request for Information at the advice of EFRAG TEG. One exception refers to the issues reported as affecting the business model which were included in the answer to Question 2 of the RFI.

2 The list of issues mentioned below present views of constituents, however EFRAG has considered that no standard setting is needed for these issues.

Question to the EFRAG Board

3 Does the EFRAG Board agree not to include the issues mentioned below in the draft comment letter to the Request for Information relating to PIR IFRS 9 (except the ones relating to the business model)?

Issues for which the EFRAG Secretariat has identified some prevalence

4 The EFRAG Secretariat identified the following issue:

	Issue	*Criterion*
	Benchmark test for last-reset rates due to IBOR reform	*Requirements cannot be applied consistently*

Issues for which the EFRAG Secretariat has identified some prevalence

Issue – Benchmark test for last-reset rates due to IBOR reform

5 Entities may identify the need to perform the SPPI benchmark test for significance of interest mismatches between:

(a) the last reset rates containing a time lag feature due to being calculated and known in advance at the start of the current interest period as averages of risk-free overnight rates over the previous interest period; and

(b) rates representing time value of money due to being calculated based on the risk-free rates development in the current interest period (known at the end of the period).

6 The issue would arise separately for:

(a) legacy portfolios which are subject to the IBOR rates replacements falling back to the last rest rates; and

(b) new portfolios where entities decide to use the last reset rates.

7 The issue raised is:

(a) whether and to what extent the need to perform the quantitative benchmark test arises and whether this brings any inappropriate burden to entities; and

(b) whether there are any failures in the SPPI benchmark test resulting in non-SPPI financial assets measured at FVPL to the extent which entities would not consider as appropriate since they deem them as basic lending agreements from business perspective.

Issues which are inherently complex and/or standard setting would not lead to a favourable cost-benefit trade-off

8 The EFRAG Secretariat identified the following issues:

	Issue	***Criterion***
	Business model – boundary HTC /HTCS (liquidity buffers banks – loan syndicates) (included in RFI)	*Requirements cannot be applied consistently*
	Reclassification and IFRS 5 – scope of IFRS 9	*Requirements not working as intended*
	Credit risk	*Requirements cannot be applied consistently*
	Prepayments	*Requirements cannot be applied consistently*
	Reporting gains on gross basis	*Requirements not working as intended*
	Measurement of derivatives to meet obligations to policyholders	*Requirements not working as intended*

Issue – Business model – boundary HTC/HTCS (held to collect/held to collect and sell)

9 The issues reported here are included in the RFI as part to the RFI-question on applying the business model.

Issue – Reclassification and IFRS 5 – scope of IFRS 9

Level at which an entity's business model is determined

10 This question arises when an entity also applies the requirements in IFRS 5. For example, a subsidiary holds financial assets within a HTC business model and the subsidiary is also classified as held for sale applying IFRS 5. In those circumstances, there is a question about whether the reporting entity (i.e., the consolidating entity) continues to consider that the financial assets of the subsidiary are held within a HTC business model. In November 2016, the IFRS-IC held the view that an entity assesses its business model for the purpose of classifying financial assets from the group perspective but did not publish any TAD. If the Committee's view were to be applied and if the financial assets were to meet the SPPI criterion, the entity would be required to change the classification of those assets from amortised cost to FVPL. Some stakeholders question whether such reclassification would provide useful information and question whether the benefits of that reclassification would exceed its implementation costs. Those stakeholders think that the Board should consider this matter in the context of the PIR of IFRS 9, rather than in the context of the PIR of IFRS 5—amending IFRS 9 could address the matter.

Business model changes over time

11 Paragraph 4.4.1 of IFRS 9 requires an entity to reclassify financial assets when, and only when, the entity changes its business model for managing those financial assets. In practice, the requirements in IFRS 9 'freeze' the business model within which financial assets are held when they are originated—unless a change in

business model occurs (rare in practice). Those requirements may be considered as very stringent in some specific circumstances. Those requirements represent an entity's expectations, at the origination date, about the business model within which it will hold a financial asset but does not necessarily reflect the business model within which that asset is held afterwards.

Issue – Credit risk

12 Diversity in practice is noted how entities disclose their credit risk exposure between financial assets measured at FVPL and those measured at FVOCI.

Issue - Prepayments

13 Diversity in practice was noted in how entities apply the guidance on prepayment features with negative compensation.

Issue – Reporting gains on gross basis

14 The performance of the banks is not reflected when there is an obligation of the banks to allocate gains on gross basis to certain beneficiaries. In addition, those gains on debt instruments sold should be reported on a gross basis in the PL when such gains are not distributable to banks' shareholders.

15 According to some, this information is not useful enough mainly related to insurance activities.

Issue - Measurement of derivatives to meet obligations to policyholders

16 As an alternative to the application of hedge accounting, the current classification and measurement requirements in IFRS 9 for derivatives could be reviewed to better reflect the risk management, in particular of the interest rate risk, that insurance companies have had in place for a very long time. Measuring all derivatives at FV-PL leads to volatility and is difficult to explain the performance when all the remaining investment portfolios of insurers will be measured at FV-OCI. As an alternative treatment, a specific scope of derivatives could be measured at FV-OCI if certain conditions are met.