



IFRS® Foundation

Post-implementation Review of IFRS 9 (Classification and Measurement)

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 3
July 2022

Purpose of this session

Agenda ref 3

- To provide brief overview of feedback received on the Post-implementation Review of IFRS 9 (Classification and Measurement)
- To discuss the project to make narrow-scope amendments to IFRS 9 requirements relating to the cash flow characteristics of financial assets. **Questions for ASAF members are on slide 7.**
- To discuss the prominence of other issues raised during the post-implementation review in various jurisdictions. **One question for ASAF members is on slide 10.**

Post-implementation Review of IFRS 9 (Classification and Measurement)

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Overall feedback

- Generally positive feedback – IFRS 9 considered an improvement on IAS 39
- No fundamental issues with underlying principles, but some aspects for IASB to consider

Topics for IASB discussion

SPPI

Feedback: Consistent application concerns relating to ESG-linked features and contractually linked instruments

Discussion: Q2 2022
Outcome: Standard-setting

Equities and OCI

Feedback: Mixed views on the scope of OCI presentation option for equity and non-recycling of fair value changes

Discussion: Q2 2022
Outcome: TBD

Amortised cost & EIR

Feedback: Challenges in reflecting uncertainty in estimating EIR and accounting for changes in estimates and modifications

Discussion: Q3 2022
Outcome: TBD

Other matters

Feedback: Comments on other matters such as business model assessment and derecognition

Discussion: Q3 2022
Outcome: TBD



Review of **impairment** requirements starting soon, with **hedge accounting** to follow later

A grayscale world map is centered in the background. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. Dotted lines also follow a similar curved path, creating a sense of motion or flow.

Contractual cash flow characteristics of financial assets

Contractual cash flow characteristics

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Instruments	PIR feedback	IASB response
<p>ESG-linked features</p> <p>Interest rate adjusted if borrower achieve pre-determined ESG targets</p>	<p>Not clear how to assess if SPPI, leading to diversity in practice</p>	<p>No fundamental changes to principles and no ESG-specific exemption</p> <p>Added a standard-setting project to clarify particular aspects of the SPPI requirements</p>
<p>Contractually linked instruments (CLIs)</p> <p>Concentrations of credit risk created by prioritisation of payments</p>	<p>Questions about scope and application of SPPI requirements to CLIs</p>	

Project objective, scope and indicative timeline

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- Narrow scope-amendments to **clarify particular aspects** of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics.
(Refer to [*AP3 of May 2022 IASB meeting*](#))

General requirements

Clarification of

- concept of a 'basic lending arrangements'
- whether and how the nature of a contingent event is relevant to determining whether the cash flows are SPPI
- requirements related to financial assets with non-recourse features

No ESG-specific exemption

Requirements related to CLIs

Clarification of

- scope
- cash flow characteristics of instruments in the underlying pool for a CLI to meet the SPPI requirements



Exposure Draft expected to be issued by Q1 2023

Questions for ASAF members

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1. Do you think that the proposed clarifying amendments would address the common application challenges with regards to:
 - a) financial assets with ESG-linked features; and
 - b) contractually linked assets?
2. Do you have any recommendations for clarifying the concept of a 'basic lending arrangement'?
3. Do you have any other comments on the standard-setting project?

A grayscale world map is the background for the slide. Overlaid on the map are several thick, curved, light-gray lines that sweep across the continents. Additionally, there are several dotted lines that form a grid-like pattern across the map, intersecting the curved lines.

Other issues

Prioritisation of PIR findings

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- At its January 2022 meeting, the IASB discussed a two-step approach to deciding whether and when to take further action in response to findings identified in PIRs. This could include, where appropriate, referring the matter to the Interpretations Committee.
- As part of this approach, the IASB considers whether the matter is pervasive and has substantial consequences.

Question for ASAF members

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1. In order to assist the IASB in deciding what action, if any, to take on particular PIR findings, please indicate whether any of the application questions in slides 11–15 are widespread in ASAF members' jurisdictions.

1. *Contractual cash flow characteristics—Contractual inflation adjustments and leverage*

Requirement

Paragraph B4.1.9 of IFRS 9 explains:

... Leverage increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest... Thus, such contracts do not [have SPPI cash flows] and cannot be subsequently measured at amortised cost or fair value through other comprehensive income.

Application question

In some jurisdictions, it is common for the interest rate of financial instruments to be contractually linked to an index that adjusts the time value of the money based on a market interest rate and/or inflation rate. Some respondents expressed the view that linking principal and interest payments to such an index results in a 'current level' time value or money (ie the 'real' interest rate). Respondents therefore questioned whether such adjustments introduce leverage in the context of recent significant rises in inflation rates.

Are financial instruments with contractual inflation-adjustments creating potential leverage widespread in your jurisdiction?

2. Contractual cash flow characteristics—Regulated interest rates and leverage

Requirement

Paragraph B4.1.9E explains:

... a regulated interest rate shall be considered a proxy for the time value of money element for the purpose of [assessing whether cash flows are SPPI] if that regulated interest rate provides consideration that is broadly consistent with the passage of time and does not provide exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement.

Application question

In some jurisdictions, financial instruments with regulated interest rates can include a leverage factor imposed by the government. For example, the interest rate on a loan is determined based on a factor of say 1.3 x the government bond yield at disbursement + a spread. Respondents asked whether such interest rates are regulated rates applying paragraph B4.1.9E of IFRS 9, and if it is, how to consider whether the rate provides exposure to risks or volatility in the contractual cash flows that are inconsistent with a basic lending arrangement applying paragraph B4.1.9E of IFRS 9.

Are financial instruments with similar leverage factors imposed by government/regulators widespread in your jurisdiction?

3. Derecognition—Assessing whether a financial asset is derecognised

Requirement

When an entity transfers a financial asset, paragraph 3.2.6 requires the entity to determine whether:

- (a) substantially all risks and rewards have been transferred [→ derecognise asset];
- (b) substantially all risks and rewards have been retained [→ continue to recognise asset]; or
- (c) if neither substantially all the risks and rewards have been retained or transferred, whether the entity has
 - i) transferred control of the financial asset [→ derecognise asset]; or
 - ii) retained control of the financial asset [→ continue to recognise asset to the extent of continuing involvement]

Application question

A few respondents said that it is not clear how to apply the derecognition requirements in paragraph 3.2.6, especially in the context of assessing whether the entity has:

- retained control when a financial asset is transferred to a special purpose vehicle or in the case of a securities lending arrangement;
- continuing involvement, for example when servicing the transferred asset, providing recourse or pledging collateral, and how to account for such continuing involvement

Are you aware of any widespread diversity in practice with a material effect in how these derecognition requirements are applied?

4. Scope—Contracts to buy or sell a non-financial item

Requirement

Paragraph 2.4 explains:

[IFRS 9] shall be applied to those contracts to buy or sell a non-financial item that can be settled **net in cash** or another financial instrument ... [including when] the entity has a practice of settling **similar contracts** net in cash or another financial instrument or by exchanging financial instruments except for contracts entered into and held ... in accordance with the entity's expected purchase, sale or usage requirements (ie own use);

Application question

A few respondents said that there is diversity in practice in applying these requirements, in particular:

- what constitutes 'similar' contracts or what amounts to 'practice' of net cash settlement;
- whether, and if so when, an entity is permitted to change its accounting for such contracts if there is a change in management's intention for the contract.

Are you aware of any widespread diversity in practice with a material effect when applying the 'own use' exemption?

5. Equity investments and OCI—accounting for transaction costs

Requirement

Paragraph 5.7.1(b) explains:

A gain or loss on a financial asset that is measured at fair value shall be measured in profit or loss unless it is an equity instrument on which the entity has elected to present gains and losses other comprehensive income.

Application question

A few respondents said that due to insufficient guidance, there is a diversity in practice in the accounting for transaction costs in the disposal of equity instruments for which the entity has elected to present gains and losses in other comprehensive income, with some entities recognising these costs in profit or loss and others recognising the costs in other comprehensive income.

Are you aware of any widespread diversity in practice with a material effect with regards to the accounting for transaction costs on these instruments?

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