

This paper provides the technical advice from EFRAG FR TEG to the EFRAG FRB, following EFRAG FR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG FRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

IASB ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)

Cover Note

Objective

- 1 The objective of the session is to approve a draft comment letter (the DCL) in response to the IASB's Exposure Draft *ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)* (the ED).

Background of the IASB project

- 2 The IASB carried out a post-implementation review of the classification and measurement requirements in IFRS 9 *Financial Instruments* and related requirements in IFRS 7 *Financial Instruments: Disclosures*, in accordance with the IASB's due process. The work completed by the IASB and the conclusions it reached are summarised in the [Project Report and Feedback Statement–Post-implementation Review of IFRS 9 Financial Instruments–Classification and Measurement](#), published in December 2022.
- 3 In analysing the feedback, the IASB decided to make narrow-scope amendments to IFRS 9 and IFRS 7 to address some of the findings from the post-implementation review.

The IASB ED

- 4 The [IASB ED](#) was published on 21 March 2023 with the comments requested by 19 July 2023.
- 5 The ED proposes amendments to the following requirements:
 - (a) settling financial liabilities using an electronic payment system; and
 - (b) assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features.
- 6 The ED also proposes amendments or additions to the disclosure requirements for:
 - (a) investments in equity instruments designated at fair value through other comprehensive income; and
 - (b) financial instruments with contractual terms that could change the timing or amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event.

- 7 The IASB proposes 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.

Feedback from EFRAG FIWG and IAWG

- 8 EFRAG FIWG and IAWG discussed the IASB proposals and initial version of the EFRAG DCL at the joint meeting of 11 April 2023.
- 9 Members generally supported the IASB proposals, highlighted the need for amendments to SPPI requirements to be delivered as soon as possible, although noting some concerns about the current wording of the proposed amendments such as “magnitude” or “specific to the debtor”.
- 10 Members made some suggestions to improve the EFRAG DCL and questioned some of the assumptions used by the IASB, such as the application of the settlement date accounting to all transactions which are not regular way purchase and sale of financial assets.
- 11 Members agreed with the IASB transition provisions and expressed some concerns about proposed disclosure requirements.

Feedback from EFRAG FR TEG

- 12 EFRAG FR TEG discussed the IASB proposals and initial version of the EFRAG DCL at its meeting of 24 April 2023 and agreed to recommend the DCL for approval to the EFRAG FRB, subject to comments and drafting suggestions listed below

Question 1 – Derecognition of a financial liability settled through electronic transfer

- 13 EFRAG FR TEG members suggested that EFRAG explicitly welcomes the IASB’s decision to address this issue through a standard-setting process rather than a IFRS Interpretation Committee agenda decision. This would allow entities to apply the amendments with transition requirements, without the need for restatements of prior periods.
- 14 In addition, members considered it useful to include in the DCL a question to constituents on whether the scope of the amendments is sufficient to address the main issues (e.g., whether the amendments should also consider the assets side or other way of payment such as checks and credits cards). The DCL should emphasise that a broader scope could widen the debate significantly and, in turn, lengthen the time needed to a solution.
- 15 This request also took into account the fact that EFRAG FR TEG members considered that the amendments would apply to a restricted set of payment systems (due to the requirements in paragraph B3.3.8(a)).
- 16 Furthermore, members agreed with the DCL’s suggestions on the need to clarify what is meant by a “short” time period in paragraph B3.3.9 of the ED. The IASB could provide a “negative” definition or make references to legal or regulatory framework. In addition, members considered that the DCL could seek further clarification on the meaning of “insignificant” settlement risk.
- 17 Members questioned the requirement in paragraph B3.3.10 of the ED and considered that the election should apply to all payment systems that meet the requirements in paragraph B3.3.8 of the ED.

Question 2 – Classification of financial assets—contractual terms that are consistent with a basic lending arrangement

- 18 EFRAG FR TEG members underlined the urgency of this amendment and suggested including a prominent ask to the IASB for decoupling the finalisation of those proposal from the other elements of the ED in the cover letter to the DCL, if the redeliberations/finalisation of the other parts of the ED would delay the publication of the amendments.
- 19 Members suggested clarifying the EFRAG recommendations in paragraph 83 of the DCL where a call was made for potential unintended consequences of the considerations in paragraph BC67 of the ED.
- 20 In addition, members considered that the IASB should include certain considerations and explanations made in the Basis for Conclusions in the main body of the amendments to avoid future misinterpretation of the Standard. Examples are the contents of paragraphs BC67, BC69, and BC72.

Question 4 – Classification of financial assets – contractually linked instruments

- 21 EFRAG FR TEG members considered that the IASB should clarify the content of the paragraph B4.1.20 to ensure that the wording would not lead to the application of the general non-recourse guidance to CLIs.

Question 5 – Disclosures – investments in equity instruments designated at fair value through other comprehensive income

- 22 Members suggested adding a question to constituents about the usefulness of the new disclosure requirements and noted the importance of getting user feedback on this.

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

- 23 EFRAG FR TEG members highlighted the considerable effort that both holders and issuers have to make to apply the proposed quantitative disclosure requirements and questioned the appropriateness of requiring this disclosure before knowing the results of the IASB pipeline project on EIR and modifications.
- 24 Members also highlighted the possible overlap with the disclosure requirements that the IASB is discussing within the FICE project and with the liquidity risk disclosure required by IFRS 7 Financial Instruments: Disclosures.
- 25 In addition to credit-impaired financial assets, members considered that the proposed quantitative disclosure requirements would not provide significant additional relevant information for financial assets measured at FVOCI.
- 26 Furthermore, members noted that further guidance would be needed to apply the proposed disclosure requirements (e.g., de minimis clauses, calculation methods, need of scenarios with different probability).

Question 7 – Transition

- 27 It was noted that due to the urgency of the finalisation of the amendments on general SPPI requirements, the IASB should consider individual transition requirements to allow for separate early adoption of those requirements if the amendments will be finalised as a package.

Next steps

- 28 The following two options for reaching EFRAG’s final position are proposing by the EFRAG Secretariat:

Option 1 – Current meeting calendar

26 June 2023	The EFRAG Secretariat’s proposal for deadline to respond to EFRAG’s DCL
26 June – 30 June 2023	Analysis of the comment letters received
5 July 2023	EFRAG FR TEG (session to recommend the FCL to EFRAG FRB) based on late papers expected to be uploaded on 30 June
13 July 2023	EFRAG FRB (session to approve the FCL) based on late papers expected to be uploaded on 7 July

Option 2 – Additional EFRAG FR TEG and FRB meetings

30 June 2023	The EFRAG Secretariat’s proposal for deadline to respond to EFRAG’s DCL
30 June – 7 July 2023	Analysis of the comment letters received
11 July 2023	EFRAG FR TEG (session to recommend the FCL to EFRAG FRB) based on late papers expected to be uploaded on 7 July
17 July 2023	EFRAG FRB (session to approve the FCL) based on late papers expected to be uploaded on 13 July

Questions to EFRAG FRB

29	What options for the proposed timeline towards the approval of EFRAG FCL does EFRAG FRB agree with?
30	Does EFRAG FRB agree with the drafting of the DCL?
31	Does EFRAG FRB agree with the drafting of the cover letter to the DCL?
32	Does EFRAG FRB approve the DCL for publication?

Agenda Papers

- 33 In addition to this cover note, agenda paper 05-02 – *EFRAG’s draft comment letter* – has been provided for the session.
- 34 The ED can be found [here](#) and the Snapshot on the ED can be found [here](#).