IFRS® Accounting

Staff paper

Agenda reference: 5

Accounting Standards Advisory Forum meeting

Date	**March 2024**
Project	**Amendments to the Classification and Measurement of Financial Assets**
Topic	**Finalising the amendments**
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Purpose of the session

To provide an overview of the IASB’s tentative decisions in responding to feedback on the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments*

Question for ASAF members

Do you have any initial views on the IASB's tentative decisions on finalising the amendments?

Overview

What did the IASB propose?

- The IASB published the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* in March 2023
- The purpose of the proposals was to respond to feedback on the post-implementation review of the classification and measurement requirements in IFRS 9
- The IASB proposed amendments relating to:
  - derecognition of financial liabilities settled through electronic transfer;
  - SPPI assessment in classifying financial assets; and
  - disclosure of information about some financial instruments

What was the feedback?

- The IASB received 107 comment letters on the Exposure Draft before the comment deadline
- Some respondents asked the IASB to prioritise the amendments relating to the classification of financial assets with ESG-linked features and to allow entities to apply the amendments independently
- The IASB's tentative decisions on responding to feedback on individual proposals is discussed on the following slides

See Exposure Draft and AP16 for September 2023

Derecognition of financial liabilities

Proposals in ED	Tentative decisions on responding to feedback
Clarifying that an entity usually applies **settlement date accounting** for financial assets and financial liabilities (B3.1.2A of the ED)	• Replacing the reference to settlement date *accounting* with a reference to the settlement date, that is the date on which the right to receive or obligation to pay cash (or another financial asset) is established or extinguished
Permitting an entity to deem a financial liability that is settled using an **electronic payment system** to be discharged before the settlement date if, and only, if the entity has initiated the payment instruction and there is: • no ability to withdraw, stop or cancel the payment instruction • no practical ability to access the cash • insignificant settlement risk (B3.3.8-B3.3.10 of the ED)	• Refining the requirement in B3.3.8(a) to refer to no *practical* ability to withdraw, stop or cancel the payment instruction, to be aligned with the requirement in B3.3.8(b) that the entity has no practical ability to access the cash

See AP16A for November 2023

Classification of financial assets – General

Proposals in ED	Tentative decisions on responding to feedback
Clarifications to the concept of a '**basic lending arrangement**' (B4.1.8A of the ED)	• Not requiring changes in cash flows to be aligned with the magnitude of changes in basic lending risks and costs • Clarifying that the amount of compensation an entity receives may indicate that it is being compensated for something other than basic lending risks or costs

Clarified guidance on when a contractual term that **changes the timing or amount of contractual cash flows** are consistent with a basic lending arrangement (B4.1.10A of the ED):
• considering all circumstances, irrespective of the probability of the contingent event occurring
• the occurrence of the contingent event is specific to the debtor
• the resulting contractual cash flows represent neither an investment in the debtor nor an exposure to the performance of specified assets
	• Not requiring the occurrence of the contingent event to be specific to the debtor
	• Clarifying that if the nature of the contingent event is not directly linked to a change in basic lending risks and costs, the cash flows can nonetheless be SPPI if:
	    • despite the nature of the event, the cash flows before and after any contingent events are SPPI; and
	    • in all scenarios, the contractual cash flows are not significantly different from the cash flows on a similar financial asset without such a contingent event

Additional examples apply these principles to financial assets with ESG-features	• Updating the examples to reflect refined clarifications

See AP16 for October 2023 and AP16A for January 2024

Financial assets with non-recourse features

Proposals in ED	Tentative decisions on responding to feedback
Scope (B4.1.16A of the ED) For a financial instrument to have such features, the right to receive cash flows is limited to the cash flows from specified assets **both over the life of the financial asset and in default**	• No substantive changes • Refining the proposed amendments by deleting the reference to 'throughout the life of the instrument'
'Look through' assessment (B4.1.17A of the ED) When entities assess ('look through to') the underlying assets, the legal and capital structure of the debtor, including extent to which cash flows from underlying assets are expected to exceed the contractual cash flows on the financial asset may need to be considered	• No substantive changes • Refining the proposed amendments to better explain that the purpose of the look through assessment is to understand the link between the underlying assets and the contractual cash flows of the financial asset being classified

See AP16B for January 2024

Contractually linked instruments (CLIs)

Proposals in ED	Tentative decisions on responding to feedback
Characteristics (B4.1.20 of the ED) • concentrations of credit risk that result in the disproportionate allocation of losses between different tranches • non-recourse features	• No substantive changes
Secured lending arrangements (B4.1.20A of the ED) • Some secured lending arrangements in which the sponsor/debtor holds the junior instrument in a structured entity do not contain CLIs	• Requiring that the junior debt instrument is held by the sponsoring entity throughout the life of the instrument • Clarifying that there may be more than one creditor with the same priority of payments
Underlying pool of financial instruments (B4.1.23 of the ED) • The underlying pool may include financial instruments that are not in scope of IFRS 9, if their cash flows are SPPI	• No substantive changes

See AP16B for January 2024

Disclosure – equity instruments and OCI

Proposals in ED	Tentative decisions on responding to feedback
Amendment of paragraph 11A of IFRS 7 to require the disclosure of: • the fair value of investments in equity instruments (rather than the fair value of each investment) at the end of the reporting period; and • the change in the fair value of investments in equity instruments during the reporting period, showing separately the amount of that change related to investments derecognised during the reporting period and the amount related to investments held at the end of the reporting period.	• No substantive changes to the proposed disclosure requirements in paragraph 11A of IFRS 7 but including a clarification that the disclosure requirements in this paragraph shall be provided by class of equity investments • Amending of paragraph 11B of IFRS 7 to include a disclosure requirement for any transfers of the cumulative gain or loss within equity during the reporting period, relating to equity investments disposed of during that reporting period

See AP16B for November 2023

Disclosure – changes in contractual cash flows

Proposals in ED	Tentative decisions on responding to feedback
For contractual terms that could change the timing or amount of contractual cash flows based on a contingent event specific to the borrower, a requirement to disclose: • a qualitative description of the nature of the contingent event • quantitative information about the range of changes to contractual cash flows that could result • the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those terms	• Refining the scope of the requirements to contractual terms that could change the amount of contractual cash flows based on a contingent event that is not directly related to a change in basic lending risks or costs (for example, the time value of money or credit risk) and including an example of a contractual term to which this disclosure requirement would apply • Refining the requirement to disclose quantitative information so that the range of changes is an example of the information an entity should disclose

See AP16A February 2024

Effective date and transition requirements

Proposals in ED	**Tentative decisions on responding to feedback**
Effective date to be determined	• Effective for annual periods beginning on or after 1 January 2026
If an entity applies the amendments for an earlier period, it shall disclose that fact and apply all the amendments at the same time.	• Entities may elect to early apply the amendments to the SPPI requirements together with the disclosure requirements in IFRS 7 relating to changes in contractual cash flows, without having to early apply the other amendments from the same date
The amendments should be applied retrospectively in accordance with IAS 8, except that an entity is not required to restate comparatives. An entity shall disclose changes in the measurement categories of financial assets as a result of applying the amendments	• No substantive changes

See AP16B February 2024

Next steps

- The IASB will begin the balloting process for the final amendments
- The amendments are due to be published in Q2 2024

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