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## PIR IFRS 9 Impairment

### Cover Note

#### Objective

- 1 The objective of this session is to provide EFRAG FR TEG with a feedback analysis and to seek views of EFRAG FR TEG on the IASB tentative decisions on:
  - (a) loan commitments and financial guarantee contracts;
  - (b) purchased or originated credit-impaired financial assets; and
  - (c) interaction of impairment requirements with other requirements.

#### Background and status of the IASB project

- 2 The IASB published the [RFI on PIR of IFRS 9 Financial Instruments - Impairment](#) on 30 May 2023.
- 3 EFRAG published its [final comment letter](#) on 27 September 2023.
- 4 The IASB started its redeliberations on the project in November 2023.
- 5 The table below represents the overview of the topics discussed and planned to be discussed and the IASB tentative decisions taken to date.

Topics for discussion in PIR Phase 2	Timing	IASB tentative decision
General approach to recognition of ECL February	February 2024	No standard-setting action
Significant increases in credit risk	February 2024	No standard-setting action
ECL measurement:		
(a) general	March 2024	No standard-setting action
(b) Loan commitments and financial guarantees	April 2024	No standard-setting action on loan commitments; low priority on FG

Purchased or originated credit-impaired assets and other matters	April 2024	No standard-setting action
Interaction between impairment requirements in IFRS 9 and other requirements	April 2024	To consider these matters in <i>Amortised Cost Measurement</i> project
Credit risk disclosures	May 2024	TBD
Other matters	May 2024	TBD

### EFRAG FR TEG feedback

#### *General approach to ECL recognition*

- 6 Members generally agreed with the IASB decision not to perform any standard-setting on this topic and noted that for the purposes of separate financial statements the reporting entity is treated as an independent entity.
- 7 One EFRAG FR TEG member disagreed with the IASB tentative decision not to take standard-setting action on calculation of ECL on intercompany loans. He noted that this issue is relevant for the Member States where IFRS Accounting Standards are permitted for use in the separate financial statements.
- 8 One EFRAG FR TEG member noted that there are already several publications and guidance in this area and that illustrative examples are non-mandatory, often too simplified and sometimes create more questions than answers.

#### *SICR*

- 9 Members expressed general disappointment that some of the more significant issues raised during PIRs did or will not result in amendments to the standard. They noted the frequent justification such as any amendments being 'disruptive to the existing practice' and the 'practice has settled' to justify a non-action without balancing clearer against the benefits of changing the standard as raised by constituents.
- 10 One member suggested that including some accounting practices into the standard are 'low hanging fruits' that could be used by the IASB and that illustrative examples, even if they are non-authoritative, still provide useful guidance.
- 11 At the same time, it was noted by other members that illustrative examples are non-binding, not endorsed, have limited impact and cannot rectify the problem if the guidance itself is not clear.

#### *Forward-looking scenarios*

- 12 EFRAG FR TEG expressed support for the IASB tentative decisions not to take standard-setting action on the forward-looking scenarios.
- 13 An observer noted significant diversity in practice in how the scenarios are defined and used. He acknowledged that it would be difficult to define guidance on forward-looking scenarios and their weights. He further suggested that the IASB clarifies that the use of only one scenario can only be appropriate in rare situations when there is a linearity between

the ECLs and scenarios. This issue was discussed by ITG and there is an explanation in the BC, but it would be better to have it directly in the standard.

#### *PMA*s

- 14 EFRAG FR TEG expressed support for the IASB tentative decisions not to take standard-setting action on PMAs.
- 15 EFRAG FR TEG noted that the PMAs are useful tool to get the ECL amount right, especially in the situations where the model output should be adjusted to reflect changing circumstances.
- 16 EFRAG FR TEG agreed that more information about the PMAs, such as how they are calculated, to which portfolio relate, for how long kept, etc will be useful and this can be achieved through disclosure.
- 17 One member questioned whether it was the IASB intention to state that the PMA can only be used "to recognise a lifetime ECL for all financial instruments for which there has been a SICR since initial recognition". It was his understanding that the IASB educational material on IFRS 9 and effects of COVID-19 allowed a broader usage of PMAs.
- 18 One member suggested that PMAs should be explicitly mentioned in the IFRS 9 standard.

#### Next steps

- 19 The IASB plans to finalise the IASB staff analysis and recommendations by the second quarter of 2024. The IASB will then publish a project report and feedback statement.

#### Terminology

- 20 In the agenda papers for this session, the following terms were used to indicate the views:
  - (a) almost all - all except a very small minority;
  - (b) most - large majority, with more than a few exceptions;
  - (c) many - small majority or large minority;
  - (d) some - small minority, but more than a few; and
  - (e) a few - a very small minority.

#### Agenda Papers

- 21 In addition to this cover note the following agenda papers are provided for this session:
  - (a) agenda paper 02-02 – Loan commitments and financial guarantee contracts;
  - (b) agenda paper 02-03 – POCI financial assets; and
  - (c) agenda paper 02-04 - Interaction with other requirements.