IFRS Accounting

Staff paper

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Topic	**Business model assessment**
Contacts	**Eun Young Park** (epark@ifrs.org) **Riana Wiesner** (rwiesner@ifrs.org)

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Introduction

1. This paper provides a summary of the feedback to *Request for Information Post-implementation Review of IFRS 9—Classification and Measurement* (the RFI) and staff analysis on the application of the business model requirements to the classification of financial assets.

2. At this meeting, the IASB will be asked to decide whether to take further actions, and if so what actions, on the topics described in this paper, applying its set criteria for responding to the matters identified in a post-implementation review (PIR).

3. This paper provides:

   (a) staff recommendation and question for the IASB;

   (b) a reminder of the PIR framework;

   (c) a reminder of IFRS 9 requirements for assessing the business model;

   (d) a summary of general feedback;

   (e) key application questions; and

   (f) staff analysis and preliminary views on the key application questions.

Staff recommendation and question for the IASB

4. Based on the analysis in this paper, the staff recommend the IASB does not take any further action on the matters identified with regards to the business model requirements in IFRS 9.

Questions for IASB
Do IASB members agree with the staff recommendation in paragraph 4 of this paper to not take any further action on the matters identified with regards to the business model requirements?

A reminder of the PIR framework

5. At its June 2022 meeting, the Trustees of the IFRS Foundation considered the recent revisions to the description of PIRs (including the prioritisation of PIR findings) in the Due Process Handbook. These principles were discussed and finalised by the IASB in September 2022.

6. The IASB considers whether to take any action on matters identified in PIRs if there is evidence that:

   (a) there are fundamental questions (ie ‘fatal flaws’) about the clarity and suitability of the core objectives or principles in the new requirements;

   (b) the benefits to users of financial statements of the information arising from applying the new requirements are significantly lower than expected (for example, there is significant diversity in application); or

   (c) the costs of applying some or all of the new requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the new requirements were issued for which it is costly to apply the new requirements consistently).

A reminder of IFRS 9 requirements

Context of the requirements

References
Paragraphs 4.1.2 and 4.1.2A of IFRS 9
Paragraphs B4.1.1–B4.1.6 of IFRS 9
Paragraphs BC4.12–BC4.21 and BC4.136–BC4.169 of the Basis for Conclusions on IFRS 9

7. IFRS 9 requires an entity to measure financial assets at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL), based on:

   (a) the financial asset's contractual cash flow characteristics[1]; and

   (b) the business model for managing the financial assets.

8. The objective of the business model assessment is to classify financial assets based on how an entity manages its financial assets in order to generate cash flows—by collecting contractual cash flows (held to collect), selling financial assets or both (held to collect and sell).

9. The IASB noted that an entity's business model does not constitute a choice (ie it is not a voluntary designation) but instead it is a matter of fact that can be observed by the way an entity is managed and information is provided to its management. Although it requires judgement to determine the appropriate business model, the assessment focuses on how the entity actually manages financial assets in order to generate cash flows and is not determined by a single factor or activity.

10. The business model assessment is neither done on an instrument-by-instrument basis (ie it does not depend on management's intentions for an individual instrument) nor at a reporting entity level. An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

[1] The feedback on the contractual cash flow characteristics assessment was discussed at the March, April and May 2022 IASB meetings.

Impact of sales on business model assessment

References
Paragraphs B.4.1.2C–B4.1.4 of IFRS 9

11. The determination of the business model for financial assets on recognition reflects management's expectation on how the instruments will be managed in order to generate cash flows. Although the objective of the business model may be to hold financial assets in order to collect contractual cash flows, an entity need not hold all those instruments until maturity and sales of financial assets can occur.

12. In determining whether cash flows are going to be realised by collecting the contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

13. Sales in themselves do not determine the business model and cannot be considered in isolation. Instead, information about past sales and expectations about future sales provide evidence on how the entity expects to realise cash flows from the financial assets. Therefore, information about past sales is considered within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions.

Reclassification

References
Paragraphs 4.4.1–4.4.3 and B4.4.1–B4.4.3 of IFRS 9
Paragraphs BC4.111–BC4.121 of the Basis for Conclusions on IFRS 9

14. In the 2009 *Classification and Measurement* Exposure Draft (the 2009 C&M ED), the IASB proposed to prohibit reclassification of financial assets because permitting reclassifications would not make it easier for users of financial statements to understand the information that financial statements provide about financial instruments and/or increase complexity. However, the IASB was persuaded that prohibiting reclassification is inconsistent with a classification approach based on how an entity manages its financial assets and therefore permitted reclassification under certain circumstances.

15. Thus, IFRS 9 requires financial assets to be reclassified if an entity changes its business model for managing those financial assets. Such changes are expected to be very infrequent and occur only in the event of a significant change to the entity's operations that is demonstrable to external parties. Accordingly, a change in business model will occur only

when an entity either begins or ceases to perform an activity that is significant to its operations. This ensures that users of financial statements are always provided with information reflecting how the cash flows on financial assets are expected to be realised.

16. It is important to note the difference in reclassification of current financial assets due to a change in business model and the choosing of a business model for financial assets at recognition that may be different from the business model of current financial assets.

17. Applying paragraph B4.1.2A of IFRS 9, if cash flows are realised in a way that is different from the expectations at initial recognition, it does not give rise to an error (as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*), nor does it change the classification of the remaining financial assets held in that business model. In other words, this does not constitute a change in business model that requires a reclassification applying paragraph 4.4.1 of IFRS 9. However, when assessing the business model for newly recognised financial assets, the entity must consider information about how cash flows were realised in the past, along with other relevant information. Therefore, the business model for newly recognised financial assets could be different from that of similar financial assets held in the previous business model.

Summary of general feedback

18. As discussed at the March 2022 IASB meeting, most respondents who commented on the business model assessments shared the view that generally the business model assessment achieves the IASB's objective of providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.

19. However, respondents expressed mixed views on consistent application. Some respondents said the requirements can be applied consistently and no further application guidance is needed. These respondents acknowledged that differences exist in how entities determine their business model (for example, some entities determine the business model at a higher level than other entities). However, they said that such differences do not necessarily reflect inconsistent application of the business model assessment. Rather, they reflect the diverse range of approaches that entities take to managing their financial assets.

20. In contrast, many respondents said the business model assessment is not always being applied consistently and asked the IASB to provide additional application guidance and illustrative examples on how to:

    (a) determine the level at which to assess the business model;

    (b) consider sales of financial assets, for example, how to quantify ‘frequent’ and ‘significant’ sales and how to consider past sales due to one-off events;

    (c) distinguish between the business models. A few respondents suggested the IASB remove the ‘held to collect and sell’ business model; and

    (d) understand the difference between a business model for managing financial assets and management’s intention for a financial asset.

Reclassification

21. Many respondents reported that changes in business models and reclassifications had been infrequent and that it has been well understood in practice that a change in business model as required in IFRS 9 is a ‘high hurdle’.

22. Some respondents (particularly regulators, standard-setters and investors) expressed support for the IFRS 9 requirements for reclassification. However, some respondents (particularly preparers) said the requirements are too restrictive and that it does not reflect the actual activity of how financial instruments are managed. These respondents suggested the IASB change the requirements to be less restrictive. Most of these comments related to specific circumstances such as:

    (a) loan syndications—when an entity intends to sell a portion of a loan portfolio to another entity but is ultimately unsuccessful in selling that portion;

    (b) internal transfers—within an entity or a group, for example, for liquidity management purposes; and

    (c) economic environmental changes including the covid-19 pandemic—changes in sales or prudential regulatory treatment resulting from the changing economic conditions.

Key application questions

23. As mentioned in Agenda Paper 3A for the March 2022 IASB meeting, the responses are consistent with the feedback the IASB has received on many occasions in the past. Overall, respondents expressed positive views on the business model requirements.

24. Most respondents encourage the IASB to use the PIR as an opportunity to make targeted improvements to the classification and measurement requirements in the light of lessons learnt from the application of IFRS 9. Suggested improvements generally relate to specific transactions, rather than fundamental aspects of IFRS 9.

25. The staff summarised and analysed the key application questions (see paragraphs 20 and 22 of this paper) that were raised by respondents to the RFI on the business model assessment.

Level at which business model is assessed

26. Feedback indicated that differences exist in how entities determine their business model, for example, some entities determine the business model at a higher level than others. Some respondents said that such differences do not necessarily lead to inconsistent application of the business model assessment but reflect the diverse range of approaches that entities take to managing their financial assets. However, a few respondents, including regulators, said that this causes diversity in practice as an asset could be managed at different levels within the entity which would result in a difference in classification.

27. Questions were also raised about the business model assessment in a consolidated group with multiple levels of subsidiaries. Respondents said that it is possible for the same asset to be managed by different entities within a consolidated group, which lead to different business model assessments. For example, some financial assets, say loans, may be identified to be 'held to collect' by the originating entity. However, within the consolidated group, similar loans may form part of a wider portfolio of financial assets which are subject to more sales resulting in a 'held to collect and sell' business model, resulting in a difference in classification between the stand-alone and consolidated financial statements.

28. Thus, those respondents asked the IASB to clarify how to determine the level at which to assess the business model both within an entity and a consolidated entity because the classification can be different depending on the level of aggregation.

How to consider sales in the business model assessment

29. Respondents asked for more application guidance concerning how to consider 'sales' in the determination of the business model for a portfolio of assets.

30. Within the held to collect business model, paragraph B4.1.3B of IFRS 9 requires entities to assess whether and how sales are consistent with the objective if those sales are more than infrequent in number and more than insignificant in value (either individually or in aggregate).

31. A few respondents asked the IASB to explain sufficiently the terms 'infrequent' and 'insignificant', and even suggested providing a threshold for each in order to increase comparability. For example, specifying frequency within a specific time horizon (ie the number of times within a year that sales are made) or a proportion of assets (ie 5% of the portfolio) as a rebuttable presumption of what is deemed 'infrequent' or 'insignificant'.

32. A few other respondents also said that the IASB should amend those requirements to include the rebalancing of portfolios for reasons other than changes in credit risk. Some reasons specifically mentioned by respondents included shifting of portfolios toward ESG investments and increase in the value and frequency of sales brought on by unexpected circumstances, such as the covid-19 pandemic. They asked whether and how such unexpected increase in frequency and value of sales would affect the business model assessment, both for the existing financial assets and new financial assets that will be recognised subsequent to the unexpected sales.

Distinction between the business models

33. A few respondents said that it is sometimes not clear how to distinguish between business model and more specifically, between the held to collect and the held to collect and sell business models. Compared to the held to collect business model, the held to collect and sell business model involves greater frequency and value of sales but there is no threshold for the sales. Respondents asked how much sales are sufficient to ensure the held to collect and sell business model and requested more application guidance to be provided.

34. Another question related to the distinction between the business models was how to differentiate held to collect and sell from other business models that require measurement at FVPL. For example, respondents asked for clarity on the difference between a 'significant' buying and selling activity in the held to collect and sell business model and an 'active' buying and selling in other business model.

35. A few respondents were of the view that the held to collect and sell business model–that would be measured at FVOCI subject to the contractual cash flows characteristics assessment–adds more complexity and users of financial statements would be best served with information from only two measurement categories (FVPL or amortised cost).

Management's intention vs business models

36. Paragraph B4.1.2 of IFRS 9 explains that the business model does not depend on management's intention for an individual instrument because the business model is determined at a level that reflects how groups of financial assets are managed. However, a few respondents asked how to understand the difference between business models and management's intention.

37. Respondents said that the initial business model does not change easily because IFRS 9 permits reclassification under rare circumstances. However, there are some situations where the business model (or management intention) has to be changed. For example, banks holding financial assets under the held to collect business model may subsequently change the initial intention to sell those assets. They are of the view that held to collect business model would not reflect how those financial assets are now managed and cash flows expected to be realised at the reporting date if the financial assets are not reclassified.

Reclassification

38. A few respondents reported difficulties in applying the reclassification requirements in practice and asked for more guidance on how to determine when changes in the way financial assets are managed qualify for reclassification. For example, they asked the IASB to clarify how to determine when changes are significant to the entity's operations and demonstrate to external parties.

39. On the other hand, some respondents said that the requirements are too restrictive and may lead to a situation in which the measurement of particular financial assets can no longer faithfully reflect the way the financial assets are actually managed at the reporting date and requested the IASB to make the reclassification requirements less restrictive. Examples of situations in which respondents considered reclassification to be appropriate, included:

    (a) *Loan syndications.* Some respondents, particularly preparers, said that sometimes a bank is not able to sell the portion it expected to sell and has to hold a portion of the loan that was initially classified as measured at FVPL. Respondents asked for greater

flexibility in these cases to reclassify the unsold portion to amortised cost to better reflect the change in how that portion will be managed.

(b) *Factoring arrangements*. A few respondents questioned whether the sale of trade receivables to a factoring service provider represent a change in the business model and what the appropriate business model for a portfolio that contains a factoring arrangement for some of the trade receivables within the portfolio would be.

(c) *Internal transfers*. A few respondents asked if transfers between business units within the same entity require a reclassification of the financial assets in the financial statements. The respondents stated that the business model for measuring the financial assets should change once the asset is transferred between business units with different business models to better reflect the way they manage the instruments.

(d) *Changes in economic environments*. In light of the current economic conditions such as the covid-19 pandemic, respondents observed changes to business strategies and sales have happened more frequently and are more significant than before. They are of the view that the assumption that changes in business models are infrequent is not relevant under these current economic conditions and requested the IASB to make the reclassification requirements less restrictive.

Staff analysis and preliminary views

Levels at which to assess the business model

40. Paragraph B4.1.2 of IFRS 9 explains that an entity determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Although IFRS 9 does not prescribe the level at which the business model must be assessed, it provides the following application guidance:

(a) the business model is not a choice (ie voluntary designation) but a matter of fact and can be observed by the way an entity is managed and information provided to management;

(b) it reflects an entity's expectations about whether assets will be managed to realise cash flows through collection, selling or both;

(c) in making the business model assessment, an entity considers all relevant information available at that time about how cash flows were realised in the past and its expectations about the future;

(d) the business model does not depend on management's intentions for individual instruments;

(e) it is not an instrument-by-instrument approach and should be determined at a higher level of aggregation;

(f) a single entity may have more than one business model for managing its financial instruments and classification need not be determined at the reporting entity level; and

(g) in some circumstances it may be appropriate to separate a portfolio of financial assets into subportfolios to the reflect the way in which the entity manages those assets.

41. As noted in paragraph B4.1.2 of IFRS 9, similar assets that are managed within different business models to achieve different objectives, are classified and measured differently within the financial statements. However, financial assets that are managed in the same way to achieve the same objective are classified and measured in the same way (subject to the contractual cash flows characteristics assessment).

42. With regards to questions about determining the business model within a consolidated group, the staff note that, consistent with how the term 'entity' is applied throughout the IFRS Accounting Standards, IFRS 9 uses the term to refer to the *reporting entity* as defined in paragraph 3.10 of the *Conceptual Framework for Financial Reporting*:

> An entity that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.

43. Therefore, when determining the business model in the consolidated group, the assessment is based on how the reporting entity (being the consolidated group) is expecting to realise the cash flows from its financial statements. If there is a difference between the way financial assets are managed within a group and the subsidiaries, it is appropriate for the group and the subsidiaries to have different business model assessments in their respective financial statements.

44. This principle is illustrated in Example 3 in paragraph B4.1.4 of IFRS 9 and confirms that it is possible for a business model assessment from a group perspective to be different from the business model assessment from the subsidiary perspective.

Example	**Analysis**
Example 3 An entity has a business model with the objective of originating loans to customers and subsequently selling those loans to a securitisation vehicle. The securitisation vehicle issues instruments to investors. The originating entity controls the securitisation vehicle and thus consolidates it. The securitisation vehicle collects the contractual cash flows from the loans and passes them on to its investors. It is assumed for the purposes of this example that the loans continue to be recognised in the consolidated statement of financial position because they are not derecognised by the securitisation vehicle.	The consolidated group originated the loans with the objective of holding them to collect the contractual cash flows. However, the originating entity has an objective of realising cash flows on the loan portfolio by selling the loans to the securitisation vehicle, so for the purposes of its separate financial statements it would not be considered to be managing this portfolio in order to collect the contractual cash flows.

45. Although the staff acknowledge the feedback that determining the business model in particular circumstances might be difficult, we note that paragraph B4.1.2B of IFRS 9 states that an entity may have to use judgement because the assessment is not determined by a single factor or activity. Relevant information to consider when assessing the business model may include (but is not limited to):

(a) how performance of the business model and the assets within that business model are evaluated and reported;

(b) the risks that affect the performance of the business model and how those risks are managed; and

(c) how managers of the business are compensated.

46. The staff considered whether more application guidance would help to resolve any diversity in practice that arise from the application of the business model requirements as opposed to differences in how entities are managing financial assets to realise cash flows. However, we think that IFRS 9 already provides detailed application guidance on making a business model assessment and that any further guidance would risk being based on particular fact patterns or become rule-based. Furthermore, based on the feedback received on the PIR, we are of the view that the benefit of additional guidance and illustrative examples would not necessarily outweigh the costs of developing and implementing new guidance. Therefore, we are not recommending further application guidance to be added.

How to consider sales when assessing the business model

47. Paragraph B4.1.2C of IFRS 9 states that sales do not determine the business model in itself, although they provide evidence related to how cash flows of financial assets are realised. As noted in that paragraph, it is important to consider the reasons for those sales and expectations about future sales activity as well as the value and frequency of the sales.

48. Therefore, when assessing the business model within which financial assets will be managed on initial recognition or determining if there has been a change in the business model, the value and frequency of sales are relevant considerations to the extent that it provides evidence about how the entity's stated objective is achieved.

49. For example, paragraph B4.1.3A of IFRS 9 states that even if a business model is held to collect, a change in the financial assets' credit risk may lead to sales of those assets. Such sales are not inconsistent with a business model whose object is to collect contractual cash flows because the credit quality of financial assets is relevant to the entity's ability to collect contractual cash flows.

50. On the other hand, an entity may choose to rebalance its portfolio within the held to collect business model for reasons other than changes in credit risk, such as managing credit concentration risk or changes in regulatory policy and requirements that shifts towards new types of financial assets. For example, entities might be required to increase their investment

in ESG-type instruments, thereby necessitating them to decrease their holdings of non-ESG investments.

51. We think it is important to note that IFRS 9 does not prohibit sales of financial assets in the held to collect business model or impose a threshold for permissible sales. Neither is there a 'tainting' effect on future classifications of financial assets into the business model.

52. When determining the business activities within which a financial asset will be manged, it is important to consider what activities are integral to achieving the objective of the business model.[2] For this reason, paragraph B4.1.3B of IFRS 9 states that entities need to assess whether and how sales are consistent with an objective of collecting contractual cash flows if those sales are more than infrequent in number and more than insignificant in value (either individually or in aggregate) irrespective of whether a third party imposes the requirement to sell the financial asset.

53. We also think it is important to note that paragraph B4.1.2A of IFRS 9 states that the business model assessment is not based on scenarios that an entity does not reasonably expect to happen. Therefore, if there is a change in circumstances that the entity did not reasonably expect to occur, for example the covid-19 pandemic, such changes do not affect the business model assessment. Similarly, if cash flows are realised in a way that is different from the entity's expectations at the date the business model assessment was done (ie there were more sales than expected), it does not change the business model for the remaining financial assets.

54. The staff are of the view that judgement is involved based on relevant information available at the time when assessing the entity's business model, as explained in the paragraph 45 of this paper. Therefore, we think that adding a quantitative threshold of 'sales' to distinguish between business models, would not only be arbitrary, but also inappropriate considering the different ways in entities conduct business and use financial assets to achieve their objectives.

Distinction between business models

55. Paragraph 4.1.4 of IFRS 9 states that a financial asset is measured at FVPL unless it is measured at amortised cost or FVOCI. Therefore, unlike IAS 39 *Financial Instruments:*

[2] Paragraph BC4.141 of the Basis for Conclusions on IFRS 9

Recognition and Measurement, where the available-for-sale category was the residual measurement category for financial assets, in IFRS 9 FVPL is the residual category.

56. In other words, for a financial asset to be measured at amortised cost or FVOCI the criteria in paragraphs 4.1.2 or 4.1.2A of IFRS 9 have to be met. Any financial assets that do not meet those criteria, have to be measured at FVPL. There is therefore no minimum level of sales or trading activity for a financial asset to be measured at FVPL. The result is that financial assets that are measured at FVPL could include for example:

    (a) those that are managed on a fair value basis;

    (b) those that are held for trading;

    (c) those that do not have cash flows that are solely payments of principal and interest; and

    (d) those for which an entity cannot determine the business model at initial recognition.

57. With regards to distinguishing between the held to collect and the held to collect and sell business models, the staff note that paragraphs B4.1.2C–B4.1.4C of IFRS 9 provide application guidance and examples on determining the business model based on the activities that are integral to achieving the entity's objectives. Although a few respondents said that sometimes it is difficult to determine the business models and asked for additional guidance to distinguish between these business models, feedback on the RFI and outreach did not suggest any evidence that matters are widespread.

58. For the request to remove the FVOCI measurement category, the staff considered reasons the IASB decided to include the FVOCI measurement category when developing IFRS 9. The IASB considered some aspects such as whether the FVPL measurement appropriately reflects the performance of financial assets that are managed both in order to collect contractual cash flows and sell and the potential mismatch between the classification and measurement of financial assets and insurance contract liabilities.[3]

59. The IASB also considered at the time that a third measurement category (FVOCI) would add complexity to IFRS 9. However, the IASB was of the view that FVOCI measurement category would better reflect the performance of those particular financial assets and that applying the

[3] BC4.138 of the Basis for Conclusions on IFRS 9

same interest revenue recognition and impairment approach for assets at amortised cost, would improve the usefulness of information provided to users of financial statements. The IASB therefore concluded that the increased complexity would be justified by the increase in the usefulness of the information.

60. The staff therefore are of the view that although the additional FVOCI category might cause complexity compared to having two measurement categories (FVPL and amortised cost), there is no evidence the benefit of removing FVOCI category will outweigh the cost of maintaining the current three measurement categories.

Reclassification and consideration of management's intention

61. When developing IFRS 9, the IASB introduced the concept of 'business model' to ensure that the measurement of a financial asset provides information that is useful to users of financial statements in predicting likely actual cash flows.[4]

62. Paragraph B4.1.2 of IFRS 9 explains that the business model assessment does not depend on management's intentions for an individual instrument. An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective, not an instrument-by-instrument basis. In addition, paragraph 4.4.1 of IFRS 9 requires an entity to reclassify financial assets only when the entity changes its business model for managing those financial assets. A business model is about how business activities are actually managed and does not relate to a choice.[5]

63. Thus, the staff are of the view that the requests for less restrictive reclassification requirements are akin to requiring classification based on management's intentions. This is also illustrated through the examples provided by respondents discussed in paragraph 39 of this paper.

64. When developing IFRS 9, the IASB considered that reclassification of financial assets would increase complexity and would not make it easier for users of financial statements to understand the information provided in the financial statements. In addition, the IASB was of

[4] BC4.15 of the Basis for Conclusions on IFRS 9
[5] BC4.20 of the Basis for Conclusions on IFRS 9

the view that an entity's business model is not expected to change that often and therefore reclassification would not be needed.[6]

65. Users of financial statements also questioned the usefulness of information noting concerns about the consistency and rigour with which any reclassification requirements would be applied. Some were also concerned that opportunistic reclassifications would be possible.[7]

66. Although the staff acknowledge respondents' feedback that when management's intentions change with regards to the cash flows from a financial asset will be realised, not changing the classification of that financial assets, accordingly, would no longer reflect the business model within which the asset is managed. However, we considered that it is not possible to develop a principle-based solution for when reclassifications should be required, other than for changes in the business model. This is because management's intentions are affected and influenced by a wide range of factors and could change quite frequently. Requiring or permitting reclassifications in such cases would lead to frequent changes to the measurement basis of financial assets. Something that users have said previously do not result in useful information.

67. The staff also considered suggestions made in the feedback on the RFI such as defining a 'grace period' during which an entity could change the business model assessment for financial assets. For example, in a loan syndication, if the entity fails to sell the expected portion of the loan and is therefore forced to hold a larger portion, the business model for the portion originally classified at FVPL could be changed within three months after initial recognition. However, we do not think it is possible to define a principle-based period of time that would be consistent with the IASB's objective for the business model assessment and therefore any period of time would be arbitrary at best.

68. On balance, the staff therefore do not recommend any changes to be made to the reclassification requirements in IFRS 9.

Other application questions

69. The staff also analysed other application questions that were raised by respondents to the RFI in the following table.

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[6] BC4.11 of the Basis for Conclusions on IFRS 9
[7] BC4.112 of the Basis for Conclusions on IFRS 9

Application questions	Staff responses
A particular financial asset contains a feature which expires with the passage of time. After the feature expires, the characteristics of the asset has changed and reclassification would be necessary considering the current cash flow characteristics.	Paragraph BC4.117 of the Basis for Conclusions on IFRS 9 explains the IASB's reasons for rejecting reclassifications based on changes in the contractual cash flow characteristics. We therefore recommend no further action to be taken.
A request to amend the reclassification accounting out of the FVOCI measurement category into the amortised cost measurement category to measure the financial assets at the fair value on the reclassification date. Any previous gain or loss in equity would be amortised or recognised in profit or loss.	As explained in paragraph BC4.214 of the Basis for Conclusions on IFRS 9, the IASB noted that because amortised cost information is provided in profit or loss for financial assets that are measured at FVOCI, reclassifications between the amortised cost measurement category and the FVOCI measurement category do not change the recognition of interest revenue or the measurement of expected credit losses. We therefore recommend no further action to be taken.
Paragraph B4.4.2 of IFRS 9 requires that a change in the objective of the entity's business model must be effected before the reclassification date. Reclassification date is 'the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets'. Does 'reporting period' include interim reporting periods?	Where the requirements in IFRS 9 are required to be applied to an annual reporting period only, the Standard deliberately refers to 'annual reporting' period. Other references to reporting period therefore apply to any reporting period as determined by the entity. We therefore recommend no further action to be taken.
When assets and liabilities are managed together and the maturities of financial assets are shorter than those of financial liabilities, how to assess the business model of those financial assets? The	The business model refers to how an entity manages its financial assets in order to generate cash flows from collecting cash flows, selling financial assets or both over the life of the financial asset as explained in

financial assets are reinvested after the maturities until the maturities of financial liabilities, so the business model should be assessed considering the reinvestment period.	paragraph B4.1.2A of IFRS 9. Financial assets cannot be classified based on facts and circumstances that arise beyond their contractual maturities. We therefore recommend no further action to be taken.

Is further action needed?

70. The staff assessed the above topics against the PIR framework to determine whether any further action needs to be taken:

PIR evaluation requirements	**Staff response**
a. Are there fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements?	No. Feedback on the RFI and the staff analysis in this paper on the matters identified indicated that the business model requirements are working as intended and that there are no fundamental questions about the clarity of suitability of the requirements in IFRS 9.
b. Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?	No. Feedback on the RFI did not provide any evidence that the benefits to users of financial statements of information arising from applying the business model requirements are significantly lower than expected.
c. Are the costs of applying some or all of the new requirements and auditing and enforcing their application significantly greater than expected?	No, Feedback on the RFI did not provide any evidence that the cost of applying, auditing or enforcing the application of the business model requirements are significantly greater than expected.