EAA–EFRAG–IASB workshop

Date	**30 June 2023**
Project	**PIR of IFRS 9 *Financial Instruments*—Impairment**
Topic	**Request for Information**
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IFRS Accounting

Introduction

The IFRS 9 journey

2009 — Post-financial crisis

IFRS 9 developed in three phases
IASB accelerates project to improve accounting for financial instruments, including address the ‘too little, too late’ problem

2014 — IFRS 9 issued

2018 — IFRS 9 effective

2020 — PIR of IFRS 9—Classification and Measurement started

Completed in 2022
IASB concluded that the requirements are generally working well but some clarifications are needed. IASB proposed amendments considering the stakeholders’ feedback

2022 — PIR of IFRS 9—Impairment started

PIR of IFRS 9—Hedge accounting will follow

A forward-looking impairment model

Addressing ‘too little, too late’

During the financial crisis, many stakeholders, including the G20, highlighted the delayed recognition of credit losses as weakness in the accounting standards at the time

In response, the IASB developed an expected credit losses impairment model that provides useful information to investors about expected credit losses to reflect changes in credit risk

Issues with IAS 39 impairment model	Solutions in IFRS 9
Delayed recognition of credit losses until evidence of a trigger event	Expected credit losses recognised throughout instrument’s life. No need for a trigger event
Credit losses reflective of past events and current conditions—future losses not considered	More timely recognition of expected credit losses based on historical, current and forecast information
Multiple impairment models for financial instruments	Same impairment model is applied to all financial instruments that are subject to impairment accounting
Limited relevant information about changes in credit risk	Improved disclosures explaining the basis of expected credit losses and of changes in credit risk

Post-implementation review of IFRS 9—Impairment

Objective

Opportunity to assess the effects of the new requirements on companies, investors, auditors and regulators

Scope

Impairment requirements in IFRS 9

Credit risk disclosures in IFRS 7

Request for information

Published
30 May 2023

Comments due
27 September 2023

Request for Information

Request for Information—what topics are being examined?

1. Overall—impairment
2. General approach to recognising ECL
3. Determining significant increases in credit risk
4. Measuring ECL
5. Simplified approach for trade and lease receivables
6. Purchased or originated credit-impaired financial assets
7. Interaction of ECL requirements with other requirements
8. Transition
9. Credit risk disclosures
10. Other matters

Request for Information—what questions is the IASB asking?

1 Objectives

- Are there **fundamental questions** (fatal flaws) about the clarity and suitability of the core objectives or principles in the impairment requirements?

2 Benefits

- Are the benefits to users of financial statements from resulting information significantly **lower than expected**?
(or there is significant diversity in application)

3 Costs

- Are the costs of applying the requirements **greater than expected**?

Can the requirements be applied consistently?

Credit risk disclosures

Credit risk disclosures—objectives

Objective-based disclosure requirements

enable users to understand the **effect of credit risk** on the **amount**, **timing** and **uncertainty** of **future cashflows**

Entities' **credit risk management practices** and how they relate to recognition and measurement of ECL

Quantitative and qualitative information to evaluate amounts in the financials arising from ECL

Entities' **credit risk exposure** including significant credit risk concentrations

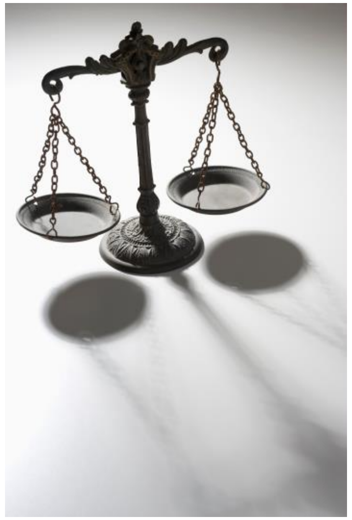
IFRS 7 approach—disclosure objectives and minimum requirements

Quantitative	Qualitative
Reconciliation of loss allowance showing key drivers for change	Inputs, assumptions and techniques used to estimate expected credit losses (and changes in techniques)
Explanation of gross carrying amounts showing key drivers for change	Inputs, assumptions and techniques used to determine ‘significant increase in credit risk’ and ‘default’
Gross carrying amount per *credit risk grade or delinquency*	Inputs, assumptions and techniques used to determine ‘credit impaired’
Write-offs, recoveries, modifications	Write off policies, modification policies, collateral

Rationale for the IFRS 7 approach

- The IASB included a combination of disclosure objectives and minimum requirements to allow an entity to decide, in the light of its circumstances, how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements

- The approach aimed to strike the right balance between:
  - **comparable information**—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed



  - **relevant information**—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks, aimed to avoid disclosure overload

Preliminary feedback

Determining significant increases in credit risk (SICR)	• Insufficient or lack of entity-specific information about (1) what is deemed a SICR and (2) how 'default' is defined
Post-model adjustments or management overlays	• Lack of entity-specific information about the recognised amounts, rationale and risks covered by the entity's post-model adjustments
Reconciliation from the opening balance to the closing balance of ECL	• Gross carrying amounts not included in the reconciliation table, making it hard to understand the key drivers for movements in ECL during the period
Sensitivity analysis (*not a requirement in IFRS 7*)	• Only some entities provide this analysis • Even when analysis is provided, difficult to understand ultimate effect

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