STAFF PAPER

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IASB® meeting

Project	**Post-implementation Review of IFRS 9—Classification and Measurement**
Paper topic	Project planning

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Purpose of this paper

1. In October 2020 the International Accounting Standards Board (Board) decided to begin the post-implementation review (PIR) of the IFRS 9 *Financial Instruments* classification and measurement requirements. This paper sets out a plan for Phase 1 of the PIR project.

2. This paper does not include staff analysis or recommendations and the Board is not asked to make any decisions based on this paper. The staff welcome questions or comments from Board members on the plan set out in this paper.

Structure of this paper

3. This paper provides:
   (a) reminders about the purpose of a PIR, the two phases of a PIR and the classification and measurement phase of the IFRS 9 project;
   (b) a plan for the PIR of IFRS 9—Classification and Measurement including:
      (i) objectives of the PIR;
      (ii) an outline of activities the Board will carry out in Phase 1; and
      (iii) an anticipated timeline for Phase 1.

Reminders

Purpose of a PIR

4. A PIR is an opportunity to assess the effect of a new Standard or major amendment to a Standard on investors, preparers and auditors following its issuance and application.

5. In previous PIRs the Board has generally focused on assessing whether:

    (a) the objectives of the standard-setting project have been met;

    (b) information provided by the Standard is useful to users of financial statements;

    (c) the requirements are capable of being applied consistently; and

    (d) the costs arising for stakeholders preparing, auditing, enforcing, or using the information provided by the Standard are broadly as anticipated by the Board when it developed the Standard.

6. These assessments help the Board determine what, if any, action it might take relating to the Standard. The findings of a PIR can also be useful input for future standard-setting projects.

7. A PIR is not an opportunity to redeliberate information the Board considered when it developed a Standard. Rather, a PIR considers new information resulting from the application of the Standard, and from market developments since the issuance of the Standard.

8. Nor is a PIR a standard-setting project. The Board may decide to undertake a research project because of the findings of a PIR, and such a research project may lead to a standard-setting project. In making that decision the Board would consider the costs and benefits of considering potential changes to the Standard. The costs and benefits of making changes to an effective Standard differ from the costs and benefits the Board would have considered when developing the Standard.

Two phases of a PIR

9. A PIR has two phases. The first involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the

Board in the form of a request for information (RFI). In the second phase, the Board considers the comments received along with information gathered through other consultative activities. Based on that information, the Board presents its findings and sets out the steps it plans to take, if any, because of the review.

10. The initial assessment (Phase 1) draws on the broad network of IFRS Standards-related bodies and interested parties, such as the Interpretations Committee, the Board's consultative groups, securities regulators, national accounting standard-setting bodies, regional bodies involved with accounting standard-setting, preparers, auditors and investors. The purpose of these consultations is to inform the Board so it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the Standard being reviewed and on what the Board already knows about the implementation of that Standard. The Board needs to be satisfied that it has sufficient information to establish the scope of the review.

Classification and Measurement phase of the IFRS 9 project

11. In November 2009 the Board issued the first version of the IFRS 9 classification and measurement requirements, with an effective date of annual reporting periods beginning on or after 1 January 2013. These requirements were subsequently amended in 2010 for the classification and measurement of financial liabilities. When the completed version of IFRS 9 (including the fair value through other comprehensive income (FVOCI) measurement category for particular debt instruments) was issued in July 2014, the effective date was ultimately set as annual reporting periods beginning on or after 1 January 2018.

12. The objectives of the classification and measurement phase of the IFRS 9 project (as set out in the Project Summary published in July 2014) were to:

    (a) address application issues that arose with IAS 39 *Financial Instruments: Recognition and Measurement*; and

    (b) improve the ability of users of financial statements to better understand the information about the amounts, timing and uncertainty of future cash flows.

13. To meet those objectives, IFRS 9 introduced the following changes to the classification and measurement requirements compared to IAS 39:

(a) a single, principle-based classification model for financial assets—based on the business model within which the assets are managed and their cash flow characteristics—to replace classification rules that were complex and difficult to apply;

(b) presentation of own credit gains and losses in OCI for financial liabilities designated under the fair value option; and

(c) business model driven reclassification to replace complicated reclassification rules.

14. Significant matters raised during the development of the IFRS 9 classification and measurement requirements were set out in the 2009 Project Summary and Feedback Statement for financial assets and 2010 Project Summary and Feedback Statement for financial liabilities. Those matters included:

(a) accounting for hybrid contracts;

(b) reclassification after initial recognition;

(c) elimination of the cost exception for unquoted equities; and

(d) FVOCI presentation—non-recycling for equity instruments.

PIR of IFRS 9—Classification and Measurement

Objectives

15. Consistent with the requirements set out in the *Due Process Handbook* and with previous PIRs, the PIR of IFRS 9—Classification and Measurement will:

(a) assess whether the requirements have improved financial reporting (without disproportionate cost); and

(b) identify lessons learned that will help the Board in its efforts to continuously improve its standard-setting.

16. In assessing whether the requirements have improved financial reporting, the Board will need to consider the following questions:

(a) are the requirements working as intended?

(i) have the requirements resolved the problems they were designed to address (that is, did they meet their objectives)?

(ii) is the resulting information useful to users of financial statements?

(iii) are the requirements responsive to changes in the market since the issuance of the Standard (for example, changes in economic conditions or the introduction of new products)?

(b) are the requirements capable of being applied consistently?

(i) is the guidance in the Standard sufficiently detailed?

(ii) if diversity in practice exists, what is the cause and what is the effect?

(c) are there any significant unexpected effects, either positive or negative (for example, changes to financial reporting, broader economic effects, or costs for preparers, auditors, regulators, or users)?

(i) do actual effects differ from the expected effects set out in the Effects Analysis[1] published when the Standard was issued?

(ii) have there been any significant effects that were not considered in the Effects Analysis?

17. These objectives will frame the questions that we ask stakeholders in Phase 1 outreach. The objectives will also provide the Board with a framework to analyse feedback for the purpose of determining the scope of the RFI.

Phase 1 activities

Outreach

18. During Phase 1, Board members and staff will perform outreach with preparers, auditors, investors, regulators and standard-setters. We will do this by consulting the Board's consultative bodies at their public meetings, as well as gathering detailed input through one-on-one meetings with small groups or individual stakeholders that have a particular interest in IFRS 9 (such as industry groups, regulators and auditors).

[1] The analysis of effects of IFRS 9, published in July 2014, is included in the Basis for Conclusions on IFRS 9.

19. The purpose of the outreach will be to provide the Board with sufficient information to identify the matters for which it will seek further feedback through the RFI.

20. Paragraph 6.51 of the *Due Process Handbook* specifies that a PIR considers the issues that were important or contentious during the development of the Standard, as well as issues that have come to the attention of the Board after the Standard was issued. This will include considering issues that the Board is aware of through, for example, implementation support it provided after IFRS 9 was issued, amendments to IFRS 9, feedback from meetings with regulators and other stakeholders, and questions raised to the IFRS Interpretations Committee.

21. When seeking feedback on such issues, we will ask that stakeholders consider the issues in the context of the objectives set out in paragraphs 15–16 of this paper. In the staff view, focusing Phase 1 outreach in this way will provide stakeholders with a clear understanding of the purpose of the outreach. In turn this will support stakeholders in the activities they carry out to gather and prepare feedback for the Board.

Academic research and literature review

22. As noted at the October 2020 meeting, at present limited academic research is available on IFRS 9. The Research Forum held on 2–3 of November 2020 included a panel session on research opportunities related to IFRS 9. In Phase 1 we will continue to encourage academic research that is relevant to the PIR and that could be reviewed in Phase 2.

23. During Phase 1 the staff will search for and review academic research and other materials (for example, news articles and reports) that are already available and that we think are relevant to the PIR. We will report our findings to the Board at a future meeting.

Phase 1 timeline

24. Based on previous PIRs and considering the due process for PIRs, the staff expect the PIR will take around 18–24 months to complete.

25. We intend that Phase 1 outreach be performed in the first half of 2021. As noted in paragraph 18 of this paper, one way the Board will gather input is through its consultative bodies. All of these consultative bodies have at least one public meeting in the first half of 2021.

26. This anticipated timing would facilitate targeting publication of the RFI in the third quarter of 2021. The Board normally allows a minimum of 120 days for comment on an RFI that is part of a post-implementation review.

27. The staff have considered how this timing would fit with possible timings of consultations on other projects on the Board's work plan. At present, we see no issue with targeting publication of the RFI in the third quarter of 2021 (that is, we do not anticipate a risk of overburdening stakeholders with too many consultation documents at the same time).

Question for Board members
Do you have any comments on the PIR project objectives, Phase 1 activities or Phase 1 timeline?