Post-implementation review of IFRS 9
—Classification and Measurement

Emerging Economies Group Meeting

EEG Agenda Paper 4
December 2021

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Agenda

Introduction

Topics being examined
The IFRS 9 journey

Post-financial crisis

2009

IASB accelerates project to improve accounting for financial instruments

IFRS 9 developed in 3 phases

IFRS 9 issued

2014

IASB supports implementation

Minor amendment—prepayments

IFRS 9 effective

2018

IASB monitors application

Minor amendments—IBOR

IASB starts PIR

2021
Post-implementation review of IFRS 9—Classification and Measurement

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

Scope
Classification and measurement requirements only (PIRs of impairment and hedge accounting will follow later)

Request for information
Published
30 September 2021
Comments due
28 January 2022

Timeline
2021
Identify matters to examine

2022
Consider feedback

Project Report

RFI
What is the IASB assessing?

A. Are the C&M requirements working as intended?
   - Have requirements resolved issues they were designed to address?
   - Is resulting information useful to investors?
   - Are requirements responsive to market changes?

B. Are there any significant unexpected effects?
   - Do actual effects differ from expected effects?
   - Have there been significant effects that were not identified when IFRS 9 was developed?
   - What can we learn from the effects?

C. Can the C&M requirements be applied consistently?
   - Are requirements sufficiently detailed?
   - If diversity in practice exists, what is the cause and what is the effect?
Topics being examined
What topics are being examined?

1. Business model
2. Cash flow characteristics
3. Equity instruments & OCI
4. Financial liabilities & own credit
5. Modifications
6. Amortised cost & EIR
7. Transition
8. Other matters relevant to PIR
1. Business model

**Background**

- ‘Business model’ refers to how an entity manages financial assets to realise cash flows (ie from collecting contractual cash flows, selling financial assets or both).
- Aligning measurement to the business model provides investors with useful information about the amounts, timing and uncertainty of future cash flows.

**Spotlight**

**Reclassification**

- Changing the classification of a financial asset makes financial statements harder to understand.
- Applying IFRS 9 reclassification occurs only when the business model changes (ie a significant and infrequent event).
- The IASB wants to hear about significant events that have and have not triggered reclassification.
2. Cash flow characteristics

Background

- Amortised cost is a simple measurement approach for cash flows that are solely payments of principal and interest (SPPI)
- Fair value measurement reflects the amount, timing and uncertainty of more complex cash flows
- IFRS 9 draws a line between contractual cash flows for which amortised cost provides useful information and those for which it does not

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<thead>
<tr>
<th>Solely payments of</th>
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<tbody>
<tr>
<td>Principal</td>
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<tr>
<td>Fair value at initial recognition</td>
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<tr>
<td>Interest</td>
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<td>Time value of money</td>
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<td>Credit risk</td>
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<td>Other basic lending costs &amp; profit</td>
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2. Cash flow characteristics

Spotlight 1
Financial assets with sustainability-linked features

- Recently there has been an increase in financial instruments with terms related to sustainability initiatives, indices or targets
- These terms can affect the contractual cash flows of the instrument
- The IASB wants to hear about how the SPPI assessment is being applied to those instruments

Spotlight 2
Contractually linked instruments (CLIs)

- The IFRS 9 requirements for CLIs apply only to particular types of financial assets
- Some stakeholders have raised questions about whether the requirements apply to particular fact patterns
- The IASB wants to hear views on whether the scope of the CLI requirements is clear
3. Equity Instruments & OCI presentation

**Background**

- Equity investments are measured at fair value because they have cash flows that are not SPPI
- The default in IFRS 9 is to recognise changes in fair value in P&L
- In some circumstances an entity can irrevocably elect to present fair value changes in OCI

**Spotlight**

**Recycling gains and losses**

- IFRS 9 prohibits gains and losses on equity investments recognised in OCI to subsequently be recycled to P&L
- This was a contentious issue when IFRS 9 was developed
- The IASB wants to hear about the characteristics of investments for which entities choose the OCI presentation option and why
4. Financial liabilities and own credit

Background

- Financial liability accounting essentially unchanged from IAS 39, except for own credit on financial liabilities designated under the fair value option
- For those financial liabilities, IFRS 9 solved an ‘own credit’ issue by requiring gains and losses arising from changes in fair value due to change in own credit risk to be presented in OCI

RFI

- Are the requirements for presenting own credit working as intended?
- Are there any other financial liability matters the IASB should consider in the PIR?
5. Modifications

Background

• Renegotiations or other modifications to contractual cash flows can result in derecognition or recalculation of the carrying amount

• IFRS 9 does not define a ‘modification’

• Drafting of requirements for financial assets and financial liabilities differ

• During IBOR project, IASB noted drafting differences could cause diversity in practice

RFI

• What do you consider to be a modification applying the requirements for financial assets and for financial liabilities?

• Can entities assess in a consistent manner whether a financial asset or a financial liability is modified and whether modification results in derecognition?
6. Amortised cost & EIR

**Background**

- The effective interest method (EIR) is used to calculate the amortised cost of a financial asset or liability and in the allocation and recognition of the interest revenue or interest expense in P&L.

- When calculating the EIR, an entity estimates expected cash flows by considering all contractual terms (e.g. prepayment, extension, call and similar options) but does not consider expected credit losses (for financial assets).

**Spotlight**

**Interest rates subject to conditions**

- Recently, the IASB learned of differing views about calculating the EIR at initial recognition, and subsequently accounting for changes in cash flow estimates.

- Questions relate to interest rates subject to conditions and to estimating future cash flow (for example, how to factor in changes in estimated cash flows including modifications).
7. Transition

**Background**

- On transition to IFRS 9, entities were required to apply the Standard retrospectively, but with reliefs to address difficulties that might have arisen from retrospective application.
- Entities were permitted but not required to present restated prior periods.

**RFI**

- Did the combination of the relief from restating comparative information and requirement for additional transition disclosures achieve an appropriate cost-benefit balance?
- Could the IASB have provided any additional transition reliefs without significantly reducing usefulness of information for investors?
Request for Information

Available at ifrs.org

Comments due 28 January 2022

Comments are most helpful if they:
• answer questions as stated
• indicate related IFRS 9 paragraphs
describe relevant fact patterns
• are supported by evidence
Questions?
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