STAFF PAPER

IASB® meeting

July 2021

Project Post-implementation Review of IFRS 9—Classification and Measurement

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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® Update.

Introduction

1. This cover note provides:
   (a) **background** on the International Accounting Standards Board’s (Board’s) previous discussions about the post-implementation review (PIR) of the classification and measurement requirements in IFRS 9 *Financial Instruments*;
   (b) an overview of relevant academic literature identified in phase 1 of the PIR;
   (c) an explanation of the outreach activities carried out in phase 1 of the PIR;
   (d) an overview of the papers for this meeting; and
   (e) an outline of next steps.

Background

2. In October 2020, the Board decided to start the PIR of the classification and measurement requirements in IFRS 9, but to not yet start the PIRs of the Standard’s impairment and hedge accounting requirements (Agenda Paper 8B). In November 2020, the Board decided that it would reconsider the start dates of those PIRs in the second half of 2021.
3. In deciding to start the PIR of the classification and measurement requirements, the Board noted that:

(a) feedback since IFRS 9 became effective suggested that, on average, the impact of the changes introduced by the classification and measurement requirements was quite limited.

(b) there is sufficient information to start the PIR now because:

   (i) trend analysis is not required to review this part of IFRS 9;

   (ii) entities’ approaches to applying the requirements are well developed; and

   (iii) whilst many insurers do not yet apply IFRS 9, those insurers are likely to have a similar experience applying the requirements as the many other entities, including some insurers, that have already applied IFRS 9.

4. In December 2020, the Board discussed the plan for phase 1 of the PIR (identification of matters to be examined) (Agenda Paper 3). The Board decided that the objective of the PIR would be to:

(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.

5. To assess whether the requirements have improved financial reporting, the Board decided to ask the following questions in phase 1 outreach:

(a) are the requirements working as intended?

   (i) have the requirements resolved the issues they were designed to address?

   (ii) is the resulting information useful to investors?

   (iii) are the requirements responsive to market changes? (eg changes in economic conditions or new products)

(b) are there any significant unexpected effects?

   (i) do the actual effects differ from the expected effects set out in the Effects Analysis?
(ii) have there been any significant effects (positive or negative) that were not identified in the Effects Analysis?

(iii) what can we learn from the effects?

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

(i) are the requirements sufficiently detailed?

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

6. Between January–June 2021, Board members and staff have been performing outreach. Feedback from that outreach will assist the Board in identifying matters on which to consult publicly in the form of a Request for Information (RFI).

Summary of academic literature review

7. Paragraphs 8–9 provide an overview of the academic literature relevant to the PIR identified during phase 1. The academic papers were:

(a) identified through a search for papers on topics relevant to the PIR in Google Scholar, Social Science Research Network (SSRN) and other databases of academic studies; or

(b) sent from academics who participated in phase 1 outreach meetings and in the 2020 IASB Research Forum.

8. Evidence relevant to the PIR is based on 3 published papers and 2 working papers.1 The findings are:

(a) based on a sample of 78 banks from 19 European countries, that:2

(i) after the implementation of IFRS 9 most financial instruments remained in their IAS 39 Financial Instruments: Recognition and Measurement category. Of the financial instruments that changed their measurement

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1 Even though the results of working papers may change prior to publication, working papers were included in this review for the purpose of outlining the scope of IFRS 9 classification and measurement related topics that researchers have addressed.

category, most were reclassified from amortised cost to fair value through profit or loss.

(ii) the implementation effect of IFRS 9 on the classification and measurement of financial instruments varied by banks’ size, credit rating approach and country of origin.

(b) based on a sample of 33 Czech banks, that the implementation of IFRS 9 had an insignificant impact on the classification of financial assets of Czech banks.°

(c) based on an experimental study examining whether presenting changes in entities’ own credit risk in profit or loss or other comprehensive income (OCI) affected investors’ information processing, that participants: 

(i) were less likely to acquire information about a change in credit risk when credit risk changes were included in profit or loss.

(ii) placed similar weight to credit risk changes in evaluating entity performance regardless of where these changes were presented.

(iii) were less likely to make biased estimates of entities’ performance if credit risk changes were included in OCI.

(iv) processing of information about credit risk changes was influenced by entities’ profitability—when entities reported a loss for the period and a credit risk gain, the influence of the presentation format on participants’ information processing was reduced.

(d) based on an academic literature review, commissioned by the European Financial Reporting Advisory Group (EFRAG) on the interaction of IFRS 9 and long-term investment decisions, that: 

(i) investors found information reported in profit or loss easier to process and review than information in OCI.

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there is inconclusive empirical evidence on the value relevance of OCI and its components.

the empirical evidence on recycling is scarce.

recycled gains and losses are value relevant—associated with share prices and returns.

entities may use recycling to manage their earnings.

based on an interpretative analysis of the European Union (EU)’s IFRS endorsement criteria in the case of IFRS 9, that:6

(i) IFRS 9 reflects a balanced ‘mixed measurement’ approach that incorporates the different views of the participants in the debate.

(ii) given divergent and often incompatible views of the participants in the due process, the implementation of IFRS 9 is due to result in significant costs for some parties (and in benefits for other parties) and that it is ultimately a political decision to weigh these costs and benefits against each other.

(iii) the researchers’ assessment of IFRS 9 indicates that the Standard does not violate any of the EU’s endorsement criteria.

9. The staff will continue to monitor the availability of relevant academic literature during phase 2 of the PIR. Further evidence relevant to the PIR will be obtained from papers submitted to the Australian Accounting Review’s Special Issue on ‘Research on Application and Impact of IFRS 9 Financial Instruments’ by 30 April 2022.

Outreach in phase 1 of the PIR

10. During phase 1 outreach we attended more than 20 meetings and spoke to a wide range of stakeholders from across the world including banks, insurers, corporates, investors and analysts, accounting firms, regulators, standard setters, and academics. We also received written feedback from a number of stakeholders.

11. As part of this outreach, we spoke to the following consultative bodies:

(a) Accounting Standards Advisory Forum;

(b) Capital Markets Advisory Committee; and  
(c) Global Preparers Forum.

12. We asked stakeholders to consider the questions set out in paragraph 5 of this paper in relation to each of the following areas of the classification and measurement requirements:  
(a) business model assessment for financial assets;  
(b) contractual cash flow characteristics assessment for financial assets;  
(c) option for equity instruments to present fair value changes in OCI;  
(d) requirements for financial liabilities;  
(e) modifications to contractual cash flows; and  
(f) transition to IFRS 9.

13. We also asked stakeholders specific questions on each of the areas listed in paragraph 12. For example, when the Board issued IFRS 9 it expected that reclassification of financial assets due to a change in business model would be rare. So, to assess whether the business model assessment is working as intended, we asked how frequent and in what circumstances have financial assets been reclassified. See Agenda Paper 4 of the March 2021 ASAF meeting for all specific questions asked in phase 1 outreach.

Papers for this meeting

14. The papers for this meeting are as follows:  
(a) Agenda Paper 3A—summary of feedback from phase 1 outreach  
This paper provides a summary of all feedback from outreach. It does not include questions for Board members (those are included in Agenda Paper 3C).  
(b) Agenda Paper 3B—feedback on financial assets with sustainability linked features;  
This paper provides a summary of feedback on a specific recurrent topic raised during outreach, with preliminary staff views on the matter. Board members
are asked for any views, comments or questions on the feedback and preliminary analysis in the paper.

(c) **Agenda Paper 3C—identifying matters to examine in phase 2**

This paper includes staff analysis, recommendations and questions for Board members on the matters to examine further in phase 2, and thus to ask question about in the RFI.

**Next steps**

15. The Board will be asked to approve the publication of, and set a comment period for, the RFI at a future meeting—after Board members have reviewed a pre-publication draft.

16. The staff expect the RFI will be publish around the end of September 2021.