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PIR of IFRS 9 – financial instruments with ESG-linked features

Joint CMAC-GPF meeting
Agenda Paper 4
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IFRS 9 Post-implementation Review

Status	Final phase of review of **classification and measurement** requirements

Topics	Feedback
Financial assets	• Overall business model and SPPI work well**,** but further guidance requested for specific aspects (e.g. financial assets with **ESG-linked features**)* • Continued strong mixed views on ‘recycling’ OCI to P&L on disposal of **equities**
Financial liabilities	• Small change relating to **own credit** gains and losses was a welcomed improvement
Other	• Requests for clarification on **(1) modifications** and **(2) effective interest method** • **Transition** achieved good balance between investor needs and costs for companies

Review of **impairment** requirements starting soon, with **hedge accounting** to follow later

SPPI – Solely payments of principal and interest;
ESG – Environmental, social and governance

Staff analysis of SPPI feedback related to ESG loans

Fact pattern

The interest rate of these loans is adjusted periodically to reflect changes in the borrower’s performance on pre-determined ESG targets that are specific to the borrower

PIR feedback

Uncertainty about how to assess whether cash flows on such loans are SPPI, which can lead to diversity in measurement approaches (amortised cost or fair value)

IASB response

Standard-setting project to clarify aspects of SPPI requirements

No fundamental changes to principles and no ESG-specific exemption

Breakout group discussion (1/2)

Case Study

Loan with ESG-linked features

Loan terms
Benchmark interest rate plus margin of 240 bps minus ESG-linked adjustment

Outcome	Margin (incl adj)
ESG target not met	240 bps
ESG target met	235 bps

CO_2 emissions target
If the company creates less than 1 million metric tonnes of CO_2 emissions across their operations in a given 12-month period, the interest margin on the loan will reduce by 5bps

Breakout group discussion (2/2)

Questions for Users

1. What information do users need about contractual terms that could change contractual cash flows based on entity-specific targets?
   a) for financial assets
   b) for financial liabilities

2. How do users make use of this information?

3. Do you make a distinction between ESG related targets and other features that could impact contractual cash flows?

Questions for Preparers

1. Do you treat loans with ESG-linked features separately from other loans?

2. Are there particular types of information that companies collect about ESG-linked features for risk management or financial management purposes?

3. Have you received any questions from investors on loans with ESG-linked or other similar features?

4. Does the availability of ESG-linked finance impact business strategy?

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