

## STAFF PAPER

June 2022

## IASB® meeting

Project	Contractual Cash Flow Characteristics of Financial Assets (Amendments to IFRS 9)	
Paper topic	Project plan	
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**Purpose of this paper**

1. In [May 2022](#), the IASB decided to start a standard-setting project to clarify particular aspects of the IFRS 9 requirements for assessing a financial asset's contractual cash flow characteristics (ie the 'solely payments of principal and interest' (SPPI) requirements).
2. This paper sets out the proposed objective and scope, and an indicative timeline for the project. The paper does not ask the IASB to make decisions but invites IASB members' questions and comments on the proposed project plan.
3. The paper sets out:
  - (a) the [background to the project](#);
  - (b) the [proposed objective for the project](#);
  - (c) the [proposed project scope](#); and
  - (d) the [proposed project plan](#).

## Background to the project

4. The IASB issued IFRS 9 *Financial Instruments* in July 2014. IFRS 9 became effective for annual reporting periods beginning on or after 1 January 2018.
5. In [October 2020](#), the IASB decided to begin the post-implementation review (PIR) of IFRS 9, starting with classification and measurement. The reviews of impairment and hedge accounting will follow.
6. The IASB issued [Request for Information Post-implementation Review of IFRS 9—Classification and Measurement](#) (the RFI) in September 2021. The RFI included spotlights on pertinent issues identified from previous discussions with stakeholders, including questions around how to apply the SPPI requirements to financial assets with ESG-linked features and about the scope of the requirements for contractually linked instruments (CLIs).
7. The IASB discussed feedback to the RFI relating to the assessment of a financial asset’s contractual cash flow characteristics at its [March](#) and [April 2022 meetings](#). Most respondents to the RFI agreed that generally the SPPI requirements work as intended, indicating that there is no need for fundamental changes to the requirements.
8. However, feedback indicated that additional application guidance on particular aspects of the SPPI requirements would assist entities in applying the requirements consistently. This includes the application of the SPPI requirements to new products or features that developed subsequent to issuing IFRS 9 such as ESG-linked features as well as the application of the requirements related to CLIs.
9. During [its May 2022 meeting](#), the IASB assessed these findings against the framework for deciding whether and when to take further action in response to PIR findings and decided to start a standard-setting project to clarify particular aspects of the SPPI requirements.

## Proposed project objective

10. As discussed in the April and May 2022 IASB meetings, the staff think that it is unnecessary to create an exception from the SPPI requirements for financial assets with ESG-linked features. Moreover, discussions with stakeholders supported the staff view that there is no need to make fundamental changes to the principles of the SPPI requirements in IFRS 9. We think adding more explanations of the overall objective of the SPPI requirements and providing additional application guidance through standard-setting will address the issue effectively and efficiently.
11. Furthermore, as noted in [Agenda paper 3C for the April 2022 meeting](#), the staff is of the view that many of the questions around the application of the CLI requirements are symptomatic of the lack of understanding of the scope of instruments to which the requirements apply. Therefore, we think that most of these questions could be resolved by providing a clear description of CLIs and the requirements applicable to the underlying pool of instruments.
12. In addition to calls for clarifications of particular aspects of the SPPI requirements, the staff agree with respondents' suggestion that disclosure could play an important role in providing useful information to users of financial statements about ESG-linked features and other contractual terms that could affect the amount or timing of contractual cash flows.
13. The proposed objective of this project would therefore be to make clarifying amendments to the application guidance in paragraphs B4.1.7 to B4.1.26 of IFRS 9 to enable the consistent application of the SPPI requirements and to consider whether additional disclosure requirements are needed.

## Proposed project scope

14. The staff's view is that objective for this project will be best achieved by clarifying the following aspects of the SPPI application guidance:
  - (a) the concept of a basic lending arrangement (paragraph B4.1.7A);
  - (b) whether and how the nature of a contingent event (ie the trigger for a change in the timing or amount of contractual cash flows) is relevant to

- determining whether the cash flows are SPPI (paragraphs B4.1.10 and B4.1.11);
- (c) examples in paragraphs B4.1.13 and B4.1.14 of applying the SPPI requirements to specific fact patterns (including adding additional examples for financial assets with ESG-linked features);
  - (d) the meaning and characteristics of non-recourse features (including rearticulation of the need to assess the underlying assets or cash flows);
  - (e) the meaning and scope of instruments to which the CLI requirements are applied (paragraph B4.1.20); and
  - (f) the requirements for the underlying pool of instruments for a CLI to meet the SPPI requirements (paragraphs B4.1.23 and B4.1.25).
15. The staff also propose assessing whether additional disclosure requirements are needed regarding contractual terms that could affect the amount or timing of contractual cash flows.
16. At this stage, the staff do not expect the project to clarify or amend other areas of IFRS 9, including:
- (a) the underlying principles of classifying financial assets (paragraphs 4.1.1 to 4.1.5);
  - (b) subsequent measurement of financial assets measured at amortised cost and applying the effective interest rate method (paragraphs 5.4.1 to 5.4.2 and B5.4.1 to B.5.4.7);
  - (c) the requirements for classifying financial liabilities (paragraphs 4.2.1 to 4.2.2);
  - (d) the requirements related to embedded derivatives (paragraphs 4.3.1 to 4.3.7); and
  - (e) any other aspects of the SPPI requirements, including considerations around the modified time value of money and probability of contingent events.

## **Project plan**

### ***No research phase required***

17. As mentioned in paragraph 6, the RFI spotlighted the application of the SPPI requirements to financial assets with ESG-features and CLIs and the IASB received a significant amount of feedback on these two topics, including recommended actions.
18. Furthermore, the staff presented an initial analysis of the application of SPPI requirements to financial assets with ESG-linked features to [the July 2021 meeting](#) of the IASB.
19. Therefore, the staff are of the view that sufficient information about the challenges in applying the SPPI requirements in the case of financial assets with ESG-features and CLIs are available to support the development of effective clarifications to IFRS 9. The staff does not believe that the benefit of additional research would outweigh the associated costs, including delays in providing clarity on the application of the SPPI requirements.

### ***High-level project timing***

20. Consistent with the IASB's previous discussions in April and May 2022, the application challenges relating to financial assets with ESG-linked features is considered a high priority matter, since the market for these projects is growing rapidly, which could accelerate accounting diversity to develop and become embedded.
21. Although respondents to the RFI have asked for an urgent response to this matter, the staff consider it important to allow sufficient time to properly consider the effect and impacts of any potential clarifications to limit the risk of unintended consequences. However, as the objective of this project is to clarify the application guidance rather than amend or develop new SPPI requirements, the staff believe that the IASB's deliberations would already aid in consistent application before the clarifications are finalised. The table below summarises the indicative timing and

key areas for discussion that will require decisions from the IASB at future meetings.

Preliminary timeline	Topics for discussion / Publication
Q3 2022	Consideration of potential clarifications
Q4 2022	Consideration of potential clarifications (continued) Permission to ballot
Q1 2023	Publication of Exposure Draft

21. As discussed in [Agenda Paper 3 for the May 2022 IASB meeting](#), the proposed clarifications for non-recourse features and CLIs are not high priority matters in themselves, but there is an interaction with the general SPPI requirements. This is because the application guidance for both non-recourse and CLIs are drawing from the general SPPI requirements. Therefore, clarifying these requirements at the same time as the general SPPI requirements would maximise the benefits of a standard-setting project while also minimising the risk of unintended consequences caused by piece-meal clarifications. However, we do not think it would be appropriate for the potential clarifications to the general SPPI requirements to be unduly delayed if there is an indication that the proposed clarifications for CLIs (as listed in paragraph 14(e) and (f)) would require more extensive analysis. If this would appear to be the case, the staff will prioritise the work on the general SPPI requirements to ensure the publication of the exposure draft is not delayed beyond Q1 2023.

**Question for IASB**

Do you have any questions or comments on the proposed project scope and direction and the indicative timeline?